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Faculty of Economics and Management

Department of Economics

DIPLOMA THESIS

Foreign trade commodity structure, case study of the Czech Republic

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Declaration

I declare I have worked on the Diploma thesis of Commodity Foreign Trade, case study of the Czech Republic by myself. All quotations and resources of information which I used, are quoted and listed by the norm in the references.

Prague, the 30th March 2011 .....

Eva Koubová

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Struktura komoditního zahraničního obchodu,
případová studie České Republiky

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Souhrn:

Tato diplomová práce analyzuje komoditní zahraniční obchod České republiky mezi roky 2000 a 2010. Je zde studována struktura a objem obchodu České republiky. Komodity jsou charakterizovány dle Standardní Mezinárodní Klasifikace Obchodu v prvním řádu. Také jsou zde definována členství či obchodní vztahy v organizacích a institucích, jako například ve Světové Obchodní Organizaci či v Evropské Unii. Diplomová práce studuje hlavní obchodované komodity a jejich objem a vývoj za sledované období. Dále je zde provedena komparativní analýza mezi Českou republikou a každým jednotlivým tradičním obchodní partnerem České republiky jako například Německo, Rakousko, Slovensko etc.

Klíčová slova:

Zahraniční obchod, Export, Import, Komoditní Obchod, Komoditní struktura, Platební Bilance, Výměnný Kurz, Česká Republika

Summary

The diploma thesis analyses commodity foreign trade in the Czech Republic between the years 2000 and 2010. There is examined the structure and volume of trade of the Czech Republic. Commodities are characterized on basis of Standard International Trade Classification in digit one. There is also studied relationships of the Czech Republic as a trade partner or a member to organizations and institutions dealing with trade, for example World Trade Organization, the European Union. The diploma thesis defines main traded commodities and their volume and development over the specified years. Furthermore there is provided a comparative analysis between the Czech republic and each of traditional trading partners as Germany, Austria, Slovakia etc.

Keywords:

Foreign trade, Export, Import, Commodity Trade, Commodity Structure, Balance of payment, Exchange Rate, The Czech Republic

Content

1 Introduction

Foreign trade is one of the main players of globalization and economic integration. The Czech Republic has gone from centrally planned economy to an open economy and market. This transformation has changed the commodity structure of import and export. During the 1990s Czech trade became to be more open and liberalized, which was assured by lowering of trade barriers and establishing of export promoting organizations.

Foreign trade defines part of the country's external relations, which includes relevant services and goods that are exchanged with other countries. Exchange has two aspects - import and export. Thus it is the cohesion of the country with other countries in the world. These are the flows of goods and services that leave the national economy, eventually come into it.

External trade plays an important role in the national economy. Theories of foreign trade often take into consideration macroeconomic variables as gross domestic product, labour and capital endowments. The country, which is active in sphere of foreign trade, is profiled as a country economically stable and successful. In the case of strengthening the country's export it often increases production, decreases unemployment and generally it may indicate improvement in trade and political situation of the country. Currently, most economies in the world have an open economy with advanced foreign sector, respectively international trade.

Even thought the performance of foreign trade is often displayed by macroeconomic indicators, which can simplify its analysis, the external trade is provided by economic aggregates such as entrepreneurs and companies. Despite macroeconomic view, it can be used for international comparison like in this diploma thesis.

Commodity structure of the Czech Republic has changed over centuries and years and today´s structure and volume cannot be compared to the volume and structure of

Czech trade during medieval time. The commodity trade progresses with the development of consumers´ needs and wants. The Czech Republic is highly industrialized country with long history in manufacturing. There still exist companies of traditional products of long history, typical for the country, and which are considered as first quality goods e.g. Bohemia Crystal or Pilsner Urquell.

2 Objectives of thesis

The goal of this diploma thesis is to characterize commodity foreign trade structure in the Czech Republic. As a key objective it compares a real situation with theories of foreign trade which are characterized in the literature overview; more over it investigates the foreign trade policies of the Czech Republic before and after joining the European Union and their changes. Another objective studies the volume and structure of commodity foreign trade and its development over the years from 2000 to 2010. Next point is a comparative analysis of main traditional trade partners of the Czech Republic, as for example Germany, Poland, Slovakia etc. Structure of trade, volume, main traded commodities and development of these goods over examined period of time are studied. It is presumed that the thesis will point out on positives and negatives of the Czech trade in regards to the other countries. As a hypothesis it is presumed that the Czech Republic as a country from the point of view of foreign trade gets over the financial crisis, which hit the world economy in the past.

3 Methodology of the diploma thesis

As a methodology, initial point was to investigate the secondary data collected in mentioned literature, articles, reports and internet resources. Then they were divided in separate capitols important for understanding theory of foreign trade and its influencing factors. Literature overview analyses theories and factors affecting commodity structure and volume of foreign trade of the Czech Republic .

Primary data were gathered from official web pages of the Czech Statistical Office, the Czech National Bank, the Ministry of Industry and Trade of the Czech Republic, the Ministry of Foreign Affairs of the Czech Republic and the Ministry of Finance of the Czech Republic. All data are at current prices. This diploma thesis does not deal with hypothesis of the Czech Republic joining common currency. Level of analysis is done on first digit of Standard International Trade Classification (SITC).

Main methodology of the diploma thesis is an empirical analysis. There is a comparative study of stated information with found data, SWOT analysis and resulting trends and recommendations to future. Comparative study always compares export, import, balance of trade and turnover of the Czech Republic to given country. It analyses commodity structure at given year (2010) and their mutual trade.

4 Literature Review

4.1 Theories of foreign trade

Foreign trade is an exchange of goods and services of specific nation traded abroad. It can be seen as a macroeconomic feature which can be used for comparing among the nations, but still the subjects of international trade are not nations. Producers and consumers form it. Producers want to maximize its profit and consumers want to maximize its utility. To study foreign trade there has been developed some theories.

Generally theories of foreign trade solve following economic problems:

1. Efficiency of allocation of manufacturing resources – mainly labour productivity and country´s endowments of production factors (they are described as limited production inputs

2. Redistribution of income and wealth – analysis of who profit or lose from trade

3. Domestic economic growth depending on supply and demand and flexibility to adapt to external influences

4. The mechanism of the market - Market bargaining strategy depends on how the real market differs from the rules of perfect competition

5. The institutional structure of the country and its impact on international trade - It may be a different economic policy (taxes, duties, level course) or different levels of integration with other countries etc.

Theories of foreign trade

The theory of international trade and commercial policy is one of the oldest branches of economic thought. From the ancient Greeks to the present, government officials, intellectuals, and economists have pondered the determinants of trade between countries, have asked whether trade bring benefits or harms the nation, and, more

importantly, have tried to determine chat trade policy is best for any particular country *(Douglas A. Irwin, Library of economics and liberty, 2001).*

There have been many different theories about trade used to define its behaviour and influences. First of them is mercantilism which is base for other theories. Reasons why to participate in foreign trade:

- diversity of products due to conditions among regions
- promotion of specialization which leads in increase of productivity
- decreasing costs of productions: increase in return to scale or decrease costs of large-scale production, decreasing costs due to intra-industry trade

Mercantilism

This theory appeared after a decline of feudalism in Europe from 16th to 18th century. It is based on economic nationalism which should build a rich and powerful state. There were established competitive nation-states and their colonies which promote volume and width of trade, and use of monetary system of gold and silver instead of the barter transactions. Its main goal was to restrain import and to support export as a protection of competition.

Nowadays the application of this theory can be seen in economies in most of states. Prioritizing export over the import is often used tactics to support national economy. The wealth of nation is given by reserves of bullions. So increasing of wealth of nation is possible just only by rising of bullion reserves by mining of them or active balance of payments. The foreign trade by mercantilists is a game with zero sum, where if one country earns, other country must lose. They came from the idea that world wealth is stable and it is just redistributed in favour of national economy. The problem of this theory is that international trade based on redistribution of labour leads to increase of total wealth, so all participating countries can earn. Mercantilism was in the biggest prosperity during the reign of Louis XIV. due to French minister of finance Jean-Baptiste Colbert.

Classical economic theories

The severe critics of mercantilist doctrine have generally been economic theorists of the English classical-school tradition, and they have usually relied on Adam Smith's account plus the vague mass of nineteenth-century tradition for their information as to the contents of mercantilist doctrine *(Douglas A. Irwin, Library of economics and liberty, 2001).*

Classical economic theories work just with one production factor which is a basic pillar of the ideas. Main representatives are Adam Smith, David Ricardo and John Stuart Mill. One of the main predecessor of classical theorists was Scottish philosopher and essayist David Hume.

Classical theories have some common features:

- All interested nations in the foreign trade profit from comparative advantages concerning labour expenses
- Need of liberalization of international trade
- Theories does not take in account the nation´s size

David Hume (1711-1776) and quantitative theory of money

David Hume presented one of the most important theories of international trade in his essay *Of money* where he estimated that growth of amount of money in economy as a result of active trade balance leads to price increase and so it worsens price competition of national entrepreneurs. In his other essays *Of the Balance of Trade* and *Of the Jealousy of Trade* he proves that foreign trade can be profitable for both involved countries and that country with barriers for import injures itself. He also indirectly formulated the theory of absolute advantage where as an author is known Adam Smith.

Adam Smith (1723 - 1790) and theory of absolute advantage

Adam Smith as a founder of classical economic theory of absolute advantage described dilemmas of international trade in his *An inquiry into the Nature and Causes of Wealth of Nations* from the year 1776 where he argued against mercantilist theories that all countries can get rich at the same time.

Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead stated that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage *(Monica Gas, International Encyclopedia of the Social Scienes,2007).*

He declared that for nation´s prosperity there are important goods and services available in the country rather than its gold reserves. His theory is based on country´s specialization in production of goods which can be produced cheaper than in other countries. These products than should be exported to countries with more expensive production of these goods and the country should import products which are cheaper produced abroad. Problem of this theory is that Adam Smith valued goods just by labour factor used for its production as the only input which can be judged as very simplified theory.

David Ricardo (1772-1823) and theory of comparative advantage

After Smith´s theory of absolute advantage, David Ricardo came with other theory which proclaimed that the foreign trade can be prosperous even if the country does not have an absolute advantage in production of some goods. His most significant publication is *On the Principal Economy and Taxation* from the year 1817. He described there that a good does not have to be produced with the cheapest expenses among producers, but at lower opportunity costs than others.

Comparative advantage explains why a country might produce and export something its citizens don't seem very skilled at producing when compared directly to

the citizens of another country *(Lauren F. Landsburg, Library of economics and liberty, 1999-2007).*

John Stuart Mill (1806-1873) and international exchange value

John Stuart Mill is an author of *Principles of Political Economy* (1848) where he used reciprocal demand as a widening to the theory of comparative advantage. He declared that country´s profit from foreign trade is dependent on elasticity of demanded goods. Size of reciprocal demand for import is reliant on size of country and its economic maturity. The country with national exchange value further away from international exchange value profits more on mutual trade than other. Because international exchange value should be closer to national exchange value of bigger country with regard to higher reciprocal demand, foreign trade should be more profitable for smaller countries or countries with low demand for foreign goods.

Neoclassical economy and foreign trade

General difference from classical economic theories of foreign trade is involvement of more production factors than just a labour factor. Main theories are represented by Heckscher-Ohlin model, followed by Stolper-Samuelson theorem, Factor-price equalization theorem, and then Rybczynski effect.

Neoclassic theories have some common features:

- Nation with comparative advantage has abundance of factor
- Abundant production factor is inexpensive
- Products made by abundant production factors are cheap

Heckscher-Ohlin Model

This theory, also known as the factor proportions model, was founded by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics in the 1920s. It is

based on assumptions of an endowment of production factors in trading region, production technologies which are given for all countries, so it is not possible to exchange labour for capital and capital for labour.. Theory proclaimed that movement of production factors is narrow, but especially capital is easy movable factor.

The idea is that a country with a high ratio of labour to capital will tend to export goods that are labour-intensive, and vice versa. The Ricardo and Heckscher-Ohlin theories tend to predict clear patterns of specialization in trade. A country will focus on one type of industry for exports and another type of industry for imports *(Arnold Kling, Library of Economics and Liberty, 2008).*

Stolper – Samuelson Theorem

This theorem is based on Heckscher-Ohlin model. It was founded by Wolfgang Stolper and Paul Samuelson in their landmark paper "Protection and Real Wages" in the year 1941. It explains an affinity between relative factor rewards and the relative prices of output goods, mainly to real returns to capital and real wages. Under some specific economic conditions as perfect competition and constant returns, the increase of the relative price of product indicates a growth in the return to that factor used the most intensively in the manufacturing of that product, and on the contrary, to decrease in retaliation to other factor. It is connected to the factor price equalization theorem.

Factor – price equalization theorem

This theorem was formulated by American economist Paul Samuelson in the year 1948. This theorem is an enlargement of Heckscher-Ohlin model about influence of international trade. Factor price equalization theorem postulates that free trade in commodities will eliminate price differentials, thereby effecting an equalization of factor prices; especially wages and interest rates *(A. P. Lerner, 1952).* This theorem declares that a country specializes on goods for which production it uses intensively factor that is a relatively abundant in a country. This factor should be relatively cheap

due to relative high supply in a country, so the goods should be also relatively inexpensive. This implies that free trade will equalize the wages of workers and the rents earned on capital throughout the world. The theorem derives from the assumptions of the model, the most critical of which is the assumption that the two countries share the same production technology and that markets are perfectly competitive *(Steven M. Suranovic, 2009).*

Rybczynsky Theorem

It is named after Polish- born English economist Tadeusz Rybczynski (1923-1998). In his book "Factor Endowment and Relative Commodity Prices" from the year 1955 Rybczynski connects change of factor´s supply to resulting in equilibrium productions and prices.

His theorem posits that when one of the factors of production is increased there is a relative increase in the production of the good using more of that factor. This unfortunately Leeds to a corresponding decline in that good´s relative price *(T. Rybczynski, 1955).*

M.V. Posner and Comparative advantage based on technology

The theory of M.V. Posner, American economist, is based on different technological development in various countries. In his book *International Trade and technical Change* (1961) it is written: Trade may be caused by technical changes and developments that influence some industries and not others. By his theory new developed product of one nation has a comparative advantage until other nation starts its own production. The time of delay is called technological gap or imitation lag which describes time interval between domestic demand for new product and own home production of the same domestic product.

Alternative theories of international trade

In despite of other theories mentioned above, there exist other ideas which are often in disagreement with classical theories. New hypothesizes do not doubt the classical ones, but they argue about usefulness of the classical ideas in reality of economy.

Friedrich List and Theory of maturity of industry

Theory of German economist, Friedrich List, does not support the idea of comparative advantage in long term, because it does not support international trade development. List´s idea proclaims that a country should start with external trade after its own industry has became mature and developed. He declared that developing country cannot build up its own domestic industry without some protection against competition from other countries. The limitation of this idea is on basis of decision which industry should be protected against competition.

Jagdish Bhagwati and Theory of impoverished growth

On the basis of idea of Indian economist, Jagdish Bhagwati, he examined that producers from developing countries react differently to change in world production. In the case of price reduction, these producers increase the volume of production and export to compensate the decrease of their own revenues as a consequence of world price fall. It leads to worsening terms of trade in developing countries.

Intensity of foreign trade

Intensity of foreign trade is one of the features which helps to compare one country to other or to the world. This can classify country´s success in trading with

other countries. It is measured by following specific international indicators *(Plchová, 2007)*.

Openness of the economy serves as an indicator of the economy involved in international trade. Degree of openness of a country's economy is usually expressed in terms of product and services ratio to GDP. The higher the ratio, the greater openness of the economy. Another internationally used indicator of the intensity of foreign trade export volume (foreign trade turnover) per capita.

Low degree of openness may occur:

- In developed countries, where is big internal market (e.g. USA)
- In less developed economies, as a result of high costs in entering the world market and the low competitiveness of products on the world market

High degree of openness may occur:

- In developed countries with high export and small internal market (small open economies)
- In less developed countries with narrow production specialization conditioned by natural resources (e.g. Iraq, Kuwait)

On the basis of these indicators, there arise general theories about rate of involvement of a country in international division of labour in dependence on type of national economy. These theories can be described by correlation relationships:

- Negative correlation between size of economy and its rate of openness: the bigger economy, the lower involvement into international division of labour and vice versa

- Positive correlation between economic development of a country and its intensity of involvement in international division of labour: the more developed country, the more intensive involvement in international division of labour

4.2 The Balance of Payment

Basic principles of the Balance of Payment

The balance of payment is systematic statistical record of all financial transactions of a the residents of domestic country with the residents of other residents. The balance of payment with all financial payments and receipts recorded must be always equal. It includes country´s payment for import and export of goods, services and capital, but also the balance of payment keeps a note of all tangible flows that are not immediately followed by cash flows (for example: barter trades, tangible economic aid and gift). The balance of payment is always monitored in specific time periods.

The balance of payment describes country´s economic situation:

- Economic performance and external trade
- Nation´s development and specialization

From the year 2003 Czech National Bank has published data of balance of payments monthly, quarterly and yearly.

The structure of Balance of Payment

In accordance with the recommendation of the International Monetary Fund each balance of payments in its horizontal structure consists five essential accounts:

1. Current Account
2. Capital Account
3. Financial Account

4. Adjustments and omissions/Statistical discrepancy
5. Official reserves/Foreign exchange reserves

Current Account

The current account is formed by balances of trade, services, revenues and current transfers. Sum of these balances gives the information about country´s performance- if the country earns or loses.

Balance of trade records export and import of tangible and intangible commodities and also goods imported just for its improvement or reparation and subsequently exported. Export and import of services are dealt in balance of services. It includes transportation, tourism, services concerning construction, insurance, finance, information technologies, licence charges, government services etc.

Balance of revenues contains revenues and other incomes of residents from abroad, and payments and receipts from foreign investments – particularly interests, dividends and reinvested earnings. Balance of current transfers records international transactions of liabilities and claims with no relation to foreign countries. They can be characterized as official and private transfers. There belongs economic aid between nations, contribution to international institutions, gifts, pensions, alimonies and remittances. Current transfers directly affect the disposable income and reduce income and consumption possibilities of the donor.

Capital Account

The capital account records international transfers of capital. Mostly it deals with relocation due to migration, change of ownerships of foreign assets, remissions of debts and property rights, licences, patents and copyright.

Financial Account

Under the revised format of the International Monetary Fund, the financial account measures long- term financial flows including foreign direct investment,

portfolio investment, and other long-term movements. Under the traditional definition, still used by many countries , items in the financial account were included in the capital account *(Moffett, 2006).*

Foreign direct investment (FDI) is purchasing of physical assets, such as plant and equipment, in a foreign country, to be managed by the parent corporation. FDI is in contradistinction to foreign portfolio investment *(Moffett, 2006).* It means that the foreigners owns 10 per cent and more of capital of home trade enterprises and vice versa. Other examples: acceptance of financial aids, provisions

Portfolio investment is purchasing of foreign stocks and bonds, in contradistinction to FDI *(Moffett, 2006).* The investment is lower than 10 per cent of capital of trade enterprise. Examples: debentures, stocks.

Other investment Assets/Liabilities consist of various short-term and long-term trade credits, cross-border loans from all types of financial institutions, currency deposits and bank deposits, and other accounts receivable and payable related to cross-border trade *(Moffett, 2006).*

Financial derivates are financial instruments, such as a futures contract or option, whose value is derived from an underlying asset like a stock or currency *(Moffett, 2006).* Czech National Bank has observed these derivates since the year 2000 and its importance in terms of overall financial account balance is not high.

Adjustments and omissions/ Statistical Discrepancy

Adjustments and omissions/Statistical discrepancy has its specific role in the balance of payment because its value is counted as the difference between debits and credits of balance of payment that it is in balance (equal zero). In accounting the debit items should be equal to the credit items, but the central bank must just guess some values (for example for tourism) when calculating the balance of payment. Also the exchange rate influences the balance of payment calculations.

Official Reserves

Official reserves/Foreign exchange reserves is the total reserves held by official monetary authorities within the country. These reserves are normally composed of the major currencies used in international trade and financial transactions *(Moffett, 2006)*. This account keeps a note about change of foreign currency deposits and bonds held by the central bank. In case of the sum of all accounts is positive, the central bank increases foreign exchange reserves and vice versa. The amount of official reserves changes because of the central bank intervention, received revenues from existing reserves, drawing the loan in foreign currency or the central bank repayment, or in case of appreciation or depreciation of home currency. There are two main types of official reserves: real and potential official reserves

Exchange Rate

Exchange Rate Theory

According to a set of rules applied in the exchange rate system currencies can be divided into two main categories:

- convertible
- nonconvertible

Nonconvertible currencies are not traded on international exchange market. Their exchange rates are composed by market power, they are established by administrative decisions.

Convertible currencies are traded in the foreign exchange market- it does not have a seat, it is a global electronic market where traders around the world buy and sell currencies. The prices at which currencies trade are known as a exchange rate. Main indicator of market press on currency is the record of financial flows on the balance of payments. Other influences are interest rate and revenues and inflation.

To take account of differences in national price levels, economists calculate real exchange rate- the current account responds only to changes in the real exchange rate, not the nominal exchange rate. Purchasing power parity is the nominal exchange rate that equalizes the prices of a market basket in the two countries . While the nominal exchange rate almost always differs from purchasing power parity, purchasing power parity is a good predictor of actual changes in the nominal exchange rate.

There are two main types of the exchange rate:

- *Fixed exchange rate:* it is enounced by the central bank, the government keeps the exchange rate against some other currency at or near a particular target, exchange rates can be fixed through exchange market intervention(government purchases or sales of currency in the foreign exchange market).

    - Advantages: elimination of exchange rate risk
    - Disadvantage: necessity of foreign exchange interventions which influence the amount of foreign exchange reserves

- *Floating exchange rate:* the government lets the exchange rate go wherever the market takes it, the central bank does not have to intervene on exchange market, but in reality bank intervenes sometimes and there are almost no clear floating exchange rates among nations

    - Advantages: There is not specified the amount of foreign exchange reserves of the central bank and independent monetary policy can exist there
    - Disadvantage: Foreign exchange risks which can cause additional costs

Foreign exchange reserves are stocks of foreign currency that governments maintain to buy their own currency on the foreign exchange market *(Paul Krugman and Robin Wells, 2009).*

Monetary policy of the Czech Republic

After the disintegration of the Czechoslovak Federative Republic and establishing the Czech Republic on January 1st, 1993 the Czechoslovakian koruna was substituted by the Czech koruna (CZK).

Periods of Czech koruna exchange rate

Czech koruna was established with division of Czechoslovakia and its development has gone through three basic stages:

- Period of fixed exchange rate (1993 – May 1997): The exchange rate of Czech koruna was fixed to five main currencies: US Dollar, German Mark, Austrian schilling, French Franc and Swiss Franc. Later the Czech National Bank fixed it just two main currencies: mainly to German Dollar as major European representative currency and then to US Dollar

- Period of managed floating exchange rate before entering the European Union (May 1997 – May 2004): During this era principal key of monetary policy of the Czech National Bank was to keep the inflation rate according to inflation targeting which is announced for the next period ahead. There was active foreign direct investment which influences appreciation of Czech koruna.

- Period of run-up to adopting the common currency (from May 2004): With entering the European Union the Czech Republic agreed to adopt common currency Euro. This agreement was subject to Maastricht Treaty (convergence criteria)

4.3 Foreign trade policies of the Czech Republic

General aspects of trade policies

Every nation uses some form of trade policy. Trade policy is a set of instruments, agreements, regulations and rules by which governments of nations influence foreign trade relationships and internal economic development of national economy. By trade policy it is possible to solve indirectly national balance of trade, problems with unemployment rate and inflation. It has two types of relationships – internal and external relationships. Internal relationships of trade policy are stated in national legislation- national competences to establish institutions for proposing and promotion of trade policy in international environment. External relationships connects trade policy with economic and foreign political system of nation. It is influenced by foreign relationships with other nations and it includes a membership in international economic organizations which creates international trade agreements.

Influence of trade policy on national economy is given by involvement of countries in international trade and investment. The involvement is generally characterized by the size of economy- the smaller the internal market, the greater the openness of the national economy. In case of the same size of market there is a rule that developed countries have bigger share of foreign trade on the gross domestic product.

In the theory there are two basic kinds of trade policies: liberalism and protectionism. In reality these kinds do not exist in its theoretical form. Trade policy of nation is always a compromise between opening of economy to external effects, export promotion and protection of domestic economy. Liberalism in trade policy removes trade barriers, opens all sectors of internal market to foreign traders and it fully removes direct and indirect benefits of national economy. On the other hand protectionism is understood as a defense of domestic market against external influences.

Instruments of trade policy

The domestic market and foreign trade relationships are influenced by instruments of trade policy. These tools are used for protection of domestic market and export promotion. Their purpose is to decrease negative effect of foreign trade on domestic market and production. Their aim is primarily to control the import of goods and their prices because of their impact on domestic production and its competitiveness, defense against unfair practices, such as dumping prices.

Protective instruments

Domestic market can be protected by determination of import quotas, import ban and tariffs. Quotas limit the quantity or specific values of import. They are temporary protective arrangements. Import ban can be applied as general or under some conditions. Import bans may be used on military equipment, drugs, flowers and animals. It also can include goods which does not meet technical and sanitary standards.

Tariffs are taxes charged on exports and imports of products. Tariffs are mainly divided as export tariffs and import tariffs. Export tariffs are mostly applied in developing countries as a protection of excessive export of raw materials by increasing the final price, while strengthening the state budget revenue. Purpose of import tariffs is to protect of domestic market and production prior to the foreign competitiveness.

Instruments supporting export

Into instruments for export encouragement there belongs state subsidies to the production of export goods, including primary production input subsidies, export subsidies, tax breaks linked to export state-guaranteed loans and insurance of export information, export services and export marketing.

4.3.1 Foreign trade policies of the Czech Republic before entering European Union

The Czech Republic, former Czechoslovakia, as post-communist country has changed its trade policies ruled by government over the years. From closed market oriented mostly to communist countries and its partners, the Czech Republic stressed on open economy and started to negotiate bilateral and multilateral agreements which led to easier access to global market.

The General Agreement on Tariffs and Trade and the Czech Republic

The Czech foreign trade policy was influenced by its membership in the General Agreement on Tariffs and Trade (GATT) for a long time. The Czech Republic, former Czechoslovakia, was one of the 23 founding members of the General Agreement on Tariffs and Trade in Geneva in the year 1947. The agreement became valid on January 1st of 1948. Czechoslovakia as a relative small and developed country had a great interest to be an active member of this community, but the change of political and economical situation in Czechoslovakia in the year 1948 limited active participation in the GATT in following years. In 1949 the United States of America imposed an embargo on export of Czechoslovakia and other communist countries which remained until fall of communism. After the division of Czechoslovakia, GATT accepted both countries the Czech Republic and Slovakia as its members. Thereafter the Czech Republic oriented its activities to creation conditions for development of trade and economic relation with areas as Chile, South Korea, Israel, South African Republic and other countries of Asia and Africa.

This agreement has changed conditions of international trade concerning lowering of duty tariffs from 40% to 5% at present. To support international trade the General Agreement on Trade and Tariffs established the World Trade Organization in the year 1993 which purpose is to liberalize the trade and lower the barriers. Nowadays the WTO has 153 members which product more than 90% of foreign trade. The WTO

enables realization of international trade even of not so powerful countries as the Czech Republic.

European Agreement with the Czech Republic

After the Velvet Revolution, the Czechoslovakian trade policy has became a market oriented and the first step was to apply for the membership in the European Community, now called the European Union. This integration started by signing of Association Agreements between Czechoslovakia, the Republic of Poland, the Republic of Hungary and the European Union in Brussels on December 16th 1991. This agreement did not guarantee acceptance into the EU, but it enabled the trade barriers removing and institutional cooperation. Afterward the division of Czechoslovakia, the Czech Republic had to sign the European Agreement again in 1993. The Czech Republic decided to integrate into the European Union because of its advanced market which would support the Czech economy and enjoy advantages of basic principles of the EU as free movement of persons, goods, services and capital, free enterprise and the expectation of a single currency.

The Czech Republic's integration into the EU was officially launched on 1 February 1995, when the Europe Agreement entered into force. By ratifying the Agreement, the Czech Republic expressed its interest in EU membership and its agreement to procedures leading to membership *(Czech National Bank, 2010).*

The Czech Republic and Central European Free Trade Agreement (CEFTA)

CEFTA, Central European Free Trade Agreement, integrates some European countries which are not members of the European Union, but they can become in future. This agreement was established in Polish city Cracow in 1992 and became valid in March 1993. Founding members were the Czech Republic, the Republic of Hungary,

the Republic of Poland and the Slovak Republic. It interconnected a market of 65 million of inhabitants. The member state has to fulfill following criteria:

- Association Agreement with the EU about future full membership into this organization
- Membership in the world Trade Organization
- Free Trade Area among members of CEFTA

Objectives of CEFTA *(CEFTA, 1992)*:

- To promote through the expansion of trade the harmonious development of the economic relations between members and thus to foster in the members the advance of economic activity, the improvement of living and employment conditions, and increased productivity and financial stability
- To provide fair conditions of competitions for trade between the members
- To contribute in this way, by the removal of barriers to trade, to the harmonious development and expansion of world trade

The Czech Republic was a member of CEFTA since its establishment until the accession of the Czech Republic into the European Union, May 1st 2004.

Organization for Economic Co-operation and Development (OECD)

Organization for Economic Co-operation and Development (OECD) was established in September 1961 as a successor to the Organization for European Economic Cooperation (OEEC), which was tasked to oversee and manage the post-war economic recovery.

Its objectives:

- the achievement of sustainable economic growth;
- Increasing employment and living standards in member countries while maintaining internal and external financial equilibrium;

- the expansion of world trade on a multilateral and non-discriminatory basis in accordance with its international obligations.

OECD's work is based on continued monitoring of events in member countries as well as outside OECD area, and includes regular projections of short and medium-term economic developments *(OECD, 2010).* Nowadays organization has 34 members and the Czech Republic has been a member since December 21st, 1995.

European Free trade Association (EFTA)

The European Free Trade Association (EFTA) is an intergovernmental organization set up for the promotion of free trade and economic integration to the benefit of its four Member States: Iceland, Liechtenstein, Norway and Switzerland *(EFTA, 2010)*. The Czech Republic signed this agreement on February 2nd, 1992. It was important for development of Czech economy and it opened the market for Czech exporters.

4.3.2 Foreign trade politics of the Czech Republic after entering European Union

After long time of preparation for integration, the Czech Republic was accepted as new member of the European Union on May 1st, 2004. Acceptance of the Czech Republic as a member of the EU was a long term goal of Czech foreign trade politics.

The Czech Republic had to change its trade policy against non-members of the EU and it was substituted by EU contractual remedies. The Czech Republic has to obey EU common trade policy, custom policy and international agreements. Also the Czech Republic had to end all agreements which were against the EU politics (for example one-sided advantages from the USA and Canada, CEFTA membership), but with exception of WTO membership. On the other side the Czech Republic extended and improved quality of contractual relationships with states of Central and South America and Caribbean nations.

Among members of the European Union there exist no customs and trade between them cannot be called foreign, but intra-union trade. The Czech membership in the EU created better conditions for trading.

4.4 Commodity Trade

A commodity is an article of commerce or trade that is in demand and sold by various suppliers without any qualitative differentiation. Generally, commodities are raw materials whose prices are based on market demand and supply. Commodities are of two types, hard and soft. Tea, coffee, sugar, sisal, cocoa, corn soya and pork bellies come under the category of soft commodities. Some examples of hard commodities are metals, such as aluminum and copper *(Economy Watch, 2010).*

Trade of commodities can be distinguish by two main custom systems which classify goods for trade statistics. It facilitates the international comparison of nations´ trade of commodities. They categorize products by specific order and features. There are two main systems:

- The Harmonized Commodity Description and Coding System (HS)
- The Standard International Trade Classification (SITC)

The Harmonized Commodity Description and Coding System (HS)

The Harmonized System (HS) is newer version of commodity classification. It includes new product types. HS was developed by the World Customs Organization (WCO) from 1972 to 1984. HS utilizes 6-digit system. It is divided on 21 sections and 97 chapters which composes of around 5 000 classes.

The Standard International Trade Classification (SITC)

SITC was invented by the United Nations Statistic Division and it has been in use since 1950. SITC utilizes 5- digit system where it describes the hierarchy by the production materials, processing stage, usage of products, importance of the product in world trade and technological stages. It has been revised a couple times and the last revision is from the year 2006. It composes of 3 000 commodity groups.

The hierarchical structure :

- Sections – one-digit code
- Divisions – two-digit codes
- Groups – three-digit codes
- Subgroups – four digit codes
- Items – five-digit codes

There are ten main categories:

Division by the SITC:

0	Food and live animals
1	Beverages and tobacco
2	Crude materials, inedible, except fuels
3	Mineral fuels, lubricants and related materials
4	Animal and vegetable oils, fats and waxes
5	Chemicals and related products
6	Manufactured goods classified chiefly by material
7	Machinery and transport equipment
8	Miscellaneous manufactured articles
9	Commodities and transactions no classified in the SITC

Even thought the Harmonized System is more detailed against SITC, the Czech Republic uses Harmonized SITC system which corresponds to custom classification of the European Union. And this diploma thesis uses SITC system for analysis of commodity foreign trade of the Czech Republic.

World Commodity Trade

World commodity trade has changed over the history. Not even the structure, but also the volume of trade has modified from the past trends. As the development of technology commodity trade went from mainly agriculture products to manufactured, especially metal products. Also commodity transfer is faster now due to settled transport infrastructure. World commodity trade and its structure are divided unevenly. Developed areas specify mainly on manufactured products than on agriculture commodities.

5 Case Study of the Czech Republic

The diploma thesis at this point focuses on analysis of Czech international trade, present situation, features influencing it and the structure of commodity export and import. There is to be found comparative analysis of Czech foreign trade and its border neighbours.

5.1 Analysis of the Czech Republic on the basis of theories

Theories of foreign trade solve issues of nations´ integration into international trade. Theory of absolute advantage cannot be proved because it is based on competing in production costs and there exist countries which can produce goods with lower production expenses, e.g. China. On the basis of Ricardian theory of comparative advantage the Czech Republic has comparative advantages in commodity matters in:

- Location of nation as a transitive country in Central Europe
- High level of education and skilled labour
- Relatively stable social environment, minimum of strikes of labour unions
- High level of industrialization
- Relatively low level of wages and salaries
- Attractive country for foreign direct investment

Disadvantages are:

- Small geographical area
- Relatively small amount of labour force from the view of size of internal market
- Climatic conditions of temperate zone limiting production of some agricultural products
- Low level of competitiveness of Czech products on foreign markets, exception has products with long traditional production connected with

goodwill of company brand (for example Bohemia Crystal, Škoda Auto, pilsner Urquell etc.)

By neoclassical theories country with abundant production factors have these factors inexpensive and goods produced by them are cheap. This idea does not meet the Czech Republic because there are no abundant production factors as it was mentioned above, but production factors of the country are still relatively cheap and the production is less expensive than in more developed countries.

The Czech Republic has some comparative advantage in technology development. According to long history of industrialization, the Czech Republic is mainly industrial country, but not all its industries are on high level of technological development. There is a comparative advantage in machine production of our main exporter Škoda Auto, a.s.

List´s theory of maturity of industry is focused on protection of nation´s industries. These protection are used also on Czech market. For example the Czech Republic protects its clothing industry by limiting import of textile from China which exports cheap products that can weaken market. Other protection is set on agricultural sector where the Czech Republic supports its agriculture against other countries such as Poland which could destroy Czech agrarian market with its surpluses in agricultural production.

Intensity of foreign trade

Intensity of foreign trade identifies openness of the economy and involvement of country in external trade.

The development of foreign trade of the country is counted preferably on nations with volume of trade higher than 10 000 USD per capita. The Czech Republic has almost 18 000 USD per capita and so the country is classified as a country focused on foreign trade with significant improvement over the last 20 years.

To compare this number to Czech neighbours, Austria has more than $ 40 000 per capita, Germany: more than $ 26 000/ inhabitant, the Slovak Republic and Poland $ 6 100 / inhabitant.

5.2 Balance of payments in the Czech Republic

The Czech Republic belongs to small open economics. Balance of payment still influences the growth of Czech economy. The Czech foreign trade is primary oriented on the European Union. As it is obvious that before the joining the European Union the capital account decreased by almost 73%.

Table 1. Balance of Payment of the CR before entering the EU (in bn CZK)

Account/Year	2000	2001	2002	2003	2004
Current Account	-104.9	-124.5	-136.4	-160.6	-147.5
Financial Account	148.0	172.8	347.8	157.1	177.3
Capital Account	-0.1982	-0.3307	-0.1194	-0.0822	-14.1865
Change in official reserves	-31.6	-67,2	-216.9	-12.9	-6.8

Source: Czech National Bank, own processing

The Czech Republic was also one of the countries which exercised the economic crisis and it was since second half of 2008. After ten years of continuing growth of gross domestic product, GDP decreased by 4.1 per cent from 2008. The year 2008 exercised the lowest level of financial account over the last decade, but on the other hand there was the highest level of current account. Lower demand from abroad affected all sectors of Czech economy. The most influenced sectors were export oriented manufacturing industries.

Table 2. Table 1. Balance of Payment of the CR after entering the EU (in billion CZK)

Account/Year	2005	2006	2007	2008	2009	2010
Current Account	-39.8	-77.2	-113.1	-22.9	-114.8	-139.2
Financial Account	154.8	92.4	125.8	59.0	154.2	182.1
Capital Account	4.6893	8.4546	19.5688	30.3788	41.8462	34.0249
Change in official reserves	-92.9	-2.1	-15.7	-40.1	-60.6	-41.4

Source: Czech National Bank, own processing

For a long time the Czech Republic has fumbled with deficit of current account. It has been passive since the year 1993 when the current account was active for the last time. During the years 2000 – 2004 the Czech Republic had a deficit of current account on GDP more than 5% of GDP which can be considered as critical. That deficit gives signal to investors to leave economy or to attack the currency. In last years, since 2004 the deficit of current account on GDP has been around 3% of GDP and can be considered as stable (estimation by Czech National Bank 3.8% in 2010) . The capital account decreased by almost 8 billion CZK on account of lower benefits from the European Union Funds. The financial account has increased by capital inflows about 28 billion CZK and also its share on GDP has risen by 2.4% to 5% of GDP.

Table 3. Current Account of the CR before entering the EU (in bn CZK)

Balance/Year	2000	2001	2002	2003	2004
Balance of trade	-120,825	-116,685	-71,323	-69,793	-13,384
Balance of services	54,5598	57,9849	21,8508	13,2367	16,5644
Balance of revenues	-52,9784	-83,5489	-115,615	-119,858	-156,638
Balance of current transfers	14,3665	17,7707	28,7091	15,8001	6,0018

Source: Czech National Bank, own processing

Entering of the Czech Republic into the European Union had a positive influence on Czech trade. The deficit of current account was mainly due to deficit of balance of trade for a long time. But since 2002 it has been otherwise. At present the balance of trade lowers the deficit of current account.

Since entering the European Union in 2004, balance of trade is positive which signs active trade performance, even its value decreases from year to year. The capital inflows during last years has supported growth of competitiveness of Czech economy. It has direct effect on balance of trade, when foreign company produces in the Czech Republic and exports abroad (for example TPCA) and that affects also Czech companies which are sub suppliers of these foreign firms and gain goodwill and ability to succeed on foreign markets. Balance of services has been growing since then and it happens due to information technology development, transportation and increasing interest in tourism in the Czech Republic. Balance of revenues is negative over whole decade- foreigners profit more from investing in the Czech Republic than residents investing in other countries. That supports efficiency of Czech economy. There was an exception in year 2008 when revenues from investment made by non-residents were lower than year before and years after. Because of the world economic crisis, investment globally was lowered so it affected Czech economy too.

Table 4. Current Account of the CR after entering the EU (in bn CZK)

Balance/Year	2005	2006	2007	2008	2009	2010
Balance of trade	59,3695	65,094	120,6169	102,7224	81,1902	53,9544
Balance of services	36,9371	45,0884	49,7071	65,8587	65,1812	66,069
Balance of revenues	-143,428	-166,943	-255,653	-174,276	-251,736	-257,704
Balance of current transfers	7,2949	-20,4334	-27,7485	-17,1974	-9,4311	-1,5111

Source: Czech National Bank, own processing

Exchange rate of the Czech Republic

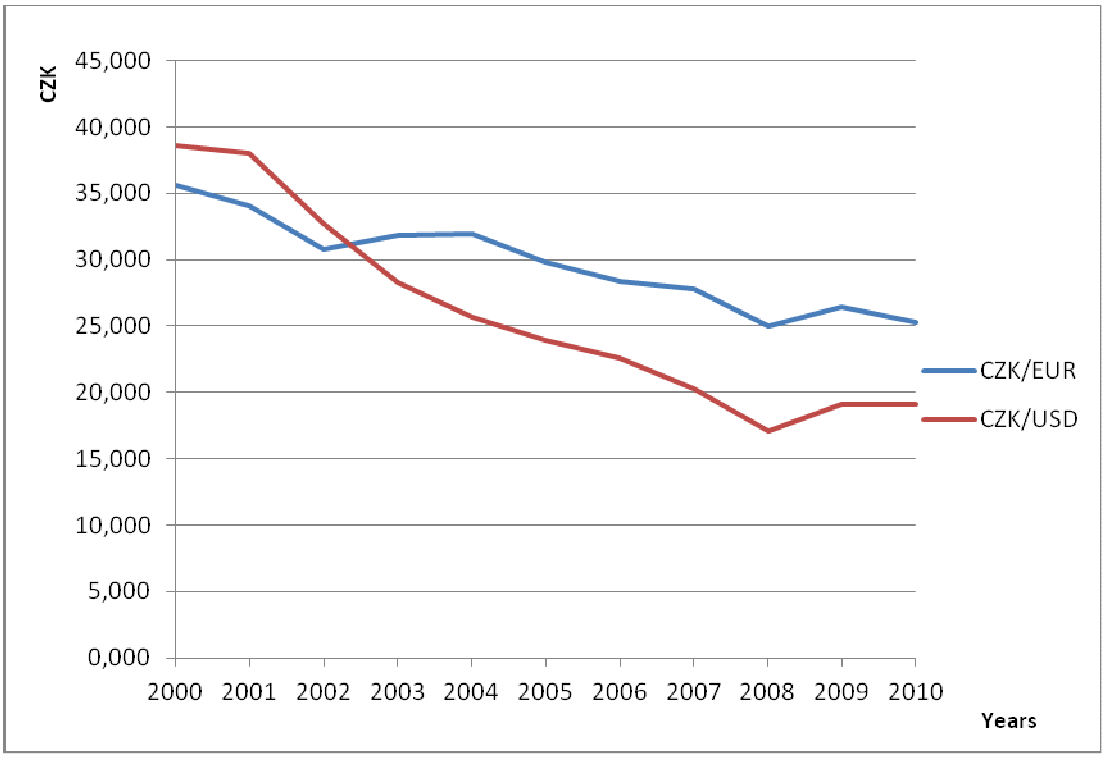
The Czech Republic is a country with floating exchange rate partly influenced by the Central Bank interventions and inflation rate. The Czech Republic can be considered as a country with low inflation.

Following graph describes development of exchange rates of two main currencies to CZ koruna: Euro and US Dollar. Values of currencies are given by yearly averages at current prices by Czech National Bank from 2000 to 2010.

Since 2000 Czech koruna has been appreciating to Euro exchange rate with exception of year 2009 when Czech koruna slightly depreciated due to effects of economic crisis and from then it has started appreciating again. In comparison average value of direct exchange rate of Euro to Czech koruna in 2000 was 35.610 CZK/ 1 EUR and in 2010 it was 25.290 CZK/ 1 EUR. That shows Czech koruna appreciation by 29 % over the decade.

Relationship of US Dollar to Czech koruna was similar. Dollar is a stronger currency with longer existence and more stable background. Czech koruna appreciated from the year 2000 till 2008 when exchange rate was 38.590 CZK/ 1 USD to exchange rate 17.035 CZK/ 11 USD in 2008. That means Czech koruna appreciated by 55 % over the past eight years. But from then Czech koruna has been depreciating to US Dollar by 12 % to the year 2010. The terrorist attack on September 11th, 2001 had also consequences on US Dollar as a powerful currency. In exchange rate to Czech koruna there was a big depreciation of US Dollar the following year. US Dollar decreased from 38.038 CZK/ 1 USD in 2001 to 32.736 CZK/ 1 USD. It is a decline of almost 14 % between two years.

Graph 1. Exchange rates between Czech koruna and main foreign currencies



Source: Czech Statistical Office, own processing

Appreciation of home currency makes import cheaper and export more expensive. Appreciation together with growing competitiveness of national companies leads to lowering of deficit in balance of trade. According to appreciating Czech koruna, Czech National Bank keeps low interest rate for long period of time which has helped to growing economy of the Czech Republic over the past decade. Combination of these factors has become advantageous for Czech economy, but it was conditional on increase of effectiveness and competitiveness of Czech companies.

Even the Czech Republic is a member of the European Union, it has not joined Euro zone yet, but by joining the EU the Czech Republic agreed to join common currency- Euro. The analysis of the Czech Republic joining Euro is not an objective of this diploma thesis.

5.3 Analysis of Foreign Trade Policies of the Czech Republic

Nowadays the Czech Republic has a common trade policy with the EU and the EU sets regulations which have to be respected all member countries.

The European Union's common trade policy addresses the following issues *(Ministry of Industry and Trade of the CR, 2010)*:

- Internal trade relations within the EU
- Multilateral issues: in relation WTO, OECD, agreements over international commodities and organizations (such as the International Coffee Agreement, the International Cocoa Organization) on bilateral and regional issues: issues pertaining to the common trade policy with third countries and with regions that are members of those countries.
- Protective tools such as anti-dumping, state-funding and increased imports from third countries and the regulation of trade barriers.
- Trade in steel products – with the Russian Federation, Ukraine, Kazakhstan, Macedonia, Romania and Moldova.
- Trade textiles and clothing – with China, Belarus, the Russian Federation, Ukraine, Uzbekistan and Vietnam

To support Czech exporters, Czech government agreed on Export Strategy of the Czech Republic which should convince Czech companies to higher production and competitiveness on foreign markets.

Analysis of export features of the Czech Republic

Export institutions in the Czech Republic

Basic instruments of export promotion deals with financing and refinancing of export credits, its insurance and information. For financing and refinancing of export credits the Czech Republic obeys conditions and rules written in Arrangement on

Officially Supported Export Credits by OECD. There were established some institutions taking care of export promotion described below.

Czech Trade

The Czech Trade Promotion Agency/ Czech Trade, formerly named Centre for External Economic Relationships, is state institution established by the Ministry of Industry and Trade of the Czech Republic in May 1997. Its main objective is to promote Czech companies on the international market and to help to enter this market. It is also an official partner for foreign companies which look for some business opportunity among Czech producers. Its seat is in Prague. It offers advisory, informational and educational services. The Czech Trade has 33 foreign offices in 37 countries worldwide . These offices help Czech exporters abroad and provide actual and verified information about business in these territories *(Czech Trade, 2010).*

Export Guarantee and Insurance Company (EGAP)

The Export Guarantee and Insurance Corporation (EGAP) was founded in June 1992 as a state-owned export credit agency, insuring credits connected with exports of goods and services from the Czech Republic against political and commercial risks. EGAP, now part of the state export support programme, provides insurance services to all exporters of Czech goods irrespective of their size, legal form and volume of insured exports *(EGAP, 2011).*

After constitution of the independent Czech Republic, EGAP was transformed into a joint-stock company owned by the Czech state, its shareholders rights have been exercised by appropriate central organs of the state administration, i.e. the Ministry of Finance of the Czech Republic, the Ministry of Industry and Trade of the Czech Republic, the Ministry of Foreign Affairs of the Czech Republic and the Ministry of Agriculture of the Czech Republic *(EGAP, 2011).*

Czech Export Bank

Czech Export Bank (CEB) supports Czech exporters so that their products and services are successful on global markets. Czech Export Bank is a specialized banking institution, directly and indirectly state-owned, for the state support of exports. It was set up in 1995 and is one of the pillars of the government's pro-export policy system. The CEB mission is to provide state support for exports through the provision and financing of export credits and other services connected with exporting. CEB thus supplements the services offered by the domestic banking system by financing export operations that require long-term financing at interest rates and in volumes that are not available to exporters on the banking market under the current domestic conditions. This allows Czech exporters to compete on international markets under conditions comparable to those enjoyed by their main foreign competitors *(Czech Export Bank, 2006)*. CEB as stock company is owned by the state (80%), represented by four Ministries of Finance, of Industry and Trade, of Foreign Affairs and of Agriculture, and by EGAP (20%).

Nongovernmental support

There exist various nongovernmental independent organizations which main goal is to provide information. Czech Chamber of Commerce has wide database of enterprises which is an useful source of information.

Export Strategy of the Czech Republic (2006 - 2010)

Export Strategy of the Czech Republic for years 2006- 2010 was approved by Czech government as to support foreign trade. The strategy exposes changes from the entering the EU, but it also defines goals for future development. There are suggested key objectives through which entrepreneurs should be efficient in their business. Main goal is to encourage the Czech Republic by trade and investment.

Key objectives *(Business Info, 2009)*:

- More opportunities for entrepreneurs (trade liberalization, territorial priorities, brand building)
- The provision of professional and efficient services (assistance, increased services export, the export of investments and acquisitions, export alliances)
- The improvement and extension of the quality of services (customer center, improvement in the availability of information, export network)
- Increased export capacities (funding, education)

These objectives can be met by 12 projects that each of them has a specific goal. One of the goals is to support Czech trade on market of the EU or to support export to countries of territorial priorities on the basis of their trade – political conditions *(MIT, 2005)*:

- Russia, Ukraine, Bulgaria, Romania, Turkey, Serbia and Montenegro, Croatia
- China, India, Vietnam
- United States, Canada, Argentina, Brazil, Chile, Mexico
- Egypt, Saudi Arabia, United Arab Emirates

Table 5. Benefits of Export Strategy *(Business Info, 2009)*

	Benefits
State	Fastening growth of GDP, increasing share of world export
Enterpreneur	Increasing productivity and competitiveness, rising turnover of companies
Inhabitant	Jobs, higher wages, better labour mobility, higher qualifications, higher living standards

Source: Business Info, own processing

Table 6. Predicted benefits and indicators of Export Strategy

Indicators	2005	2010
Commodity export per capita	6 300 USD	10 400 USD
The share of the world commodity export of the CR	0.72 %	0.9 %

Source: Business Info, own processing

The Export Strategy of the Czech Republic for 2006 – 2010 was prolonged for the year 2011 by government on January 19th, 2011. This extension should enable new export strategy for 2012 – 2015 connected with prepared Strategy of Competitiveness of the Czech Republic and also with Concept of Foreign Policies of the Czech Republic.

By the article of the Ministry of Industry and Trade of the Czech Republic *Performance of the Export Strategy in 2010* Czech export was recovering from the world economic crisis and started to enjoy a revitalization in the increase of external demand. Czech exporters has risen their activity to reach pre-crisis situation and to stop the trend of falling exports. The economic performance of the Czech Republic after crisis was one of the best among members of the EU. The Czech Republic is one with the highest export growth dynamic and producing surplus in balance of trade over the long period of time. Competitiveness of the Czech Republic was meant as lower in international comparisons, but on the basis of macroeconomic indicators the position of the Czech Republic in terms of trade has not been affected very much. The Czech Republic is very dependent on the market of the EU to which it exports around 84% of total exports and directly to Germany the Czech Republic exports 31.6%. This is a disadvantage for the Czech Republic because its export relies mainly on one market and that information should support the idea of finding new territorial priorities.

This year 2011 the Czech Republic will also concentrate on international development cooperation in term of the MIT by seven continuing projects (e.g. Aid for Trade) in Serbia, Albania, Mongolia, Palestine, Jamaica, Mali and the Filipinas. The

key objectives are to promote Czech entrepreneurs. This help is concentrated on progressive liberalization of mutual trade and support of small and medium enterprises, progress of labour market in connection to development in new technologies. To support diversification of markets the Ministry of Industry and Trade established the Export Financing Platform which should lower dependency of the Czech Republic on export to the EU countries.

5.4 Commodity Trade of the Czech Republic

The Czech Republic is a small country with high integration into foreign trade since its transformation from centrally planned economy to open economy. It is high industrialized country with long history in manufacturing. The following graphs are categorized by Standard International Trade Classification (SITC) which is used for commodity specification and diversification.

By the head of Sector of Economic Analysis from the Ministry of Industry and Trade of the Czech Republic, Jaroslav Vomastek Czech foreign trade for the last year finished with surplus over 15 billion CZK. Export and import are just parts of whole progress of Czech economy, but their influence is major. That is why the development of trade balance over last months can testify gradual recovery of Czech economy. The foreign trade of last year was positively affected by favourable exchange rate.

“The development of Czech foreign trade is highly dependent on progress of world economy, and just not even in Europe, but also in the United States of America. The USA is main export territory of Germany, the biggest trade partner of the Czech Republic. So it is a good news that as Europe as the USA has started to recover from the economic crisis” by Martin Pospíšil, head of Sector of European Countries from the Ministry of Industry and Trade.

During the last years Czech export has specialized on important commodities of automotive and transport machine industry. Due to economic crisis and change in an adjustment of foreign trade, traditional export industries such as glass- making industry

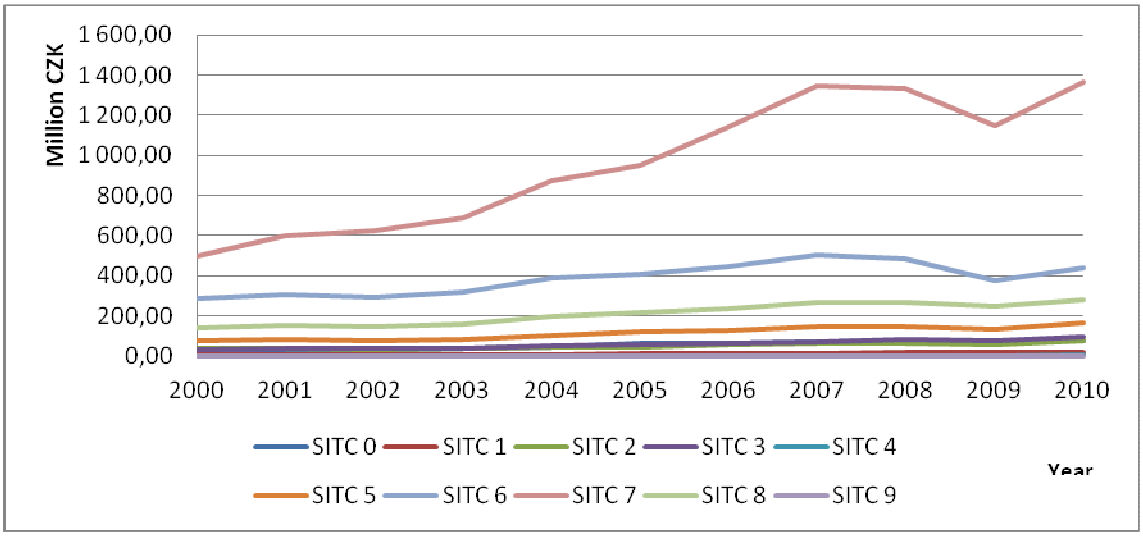
or textile industry are not so profitable as in past. The Czech Republic now focuses more on machine and electrotechnical sectors, or selling electricity, coal or wood to neighbouring countries.

Since the joining the EU Czech export and import constantly grew until 2008 and in the year 2009 there was a decline due to delayed reaction to world economic crisis from 2008.

The Czech export is mainly oriented on machine production (SITC 7) which takes over 50 % of a total export (54% in year 2010). Graph below shows how Czech export was hit by economic crisis during years 2008 and 2009, but also the recovering trend from it in the year 2010. Main commodities exported abroad from category SITC 7 represent automatic data processing machines and units thereof, but the most traded are motor cars (almost by 300 billion in 2010), and parts and accessories of the motor vehicles (nearly 200 billion CZK).

Jaroslav Vomastek said: "Last year Czech car producers and their sub suppliers profited mainly from scrap in surrounding countries, especially in Germany and France. Export of cars increased by 12.5% and when establishing scrap benefits, export of cars to Germany rose by one third ".

Graph 2. Commodity Export of the Czech Republic at current prices (2000 - 2010)

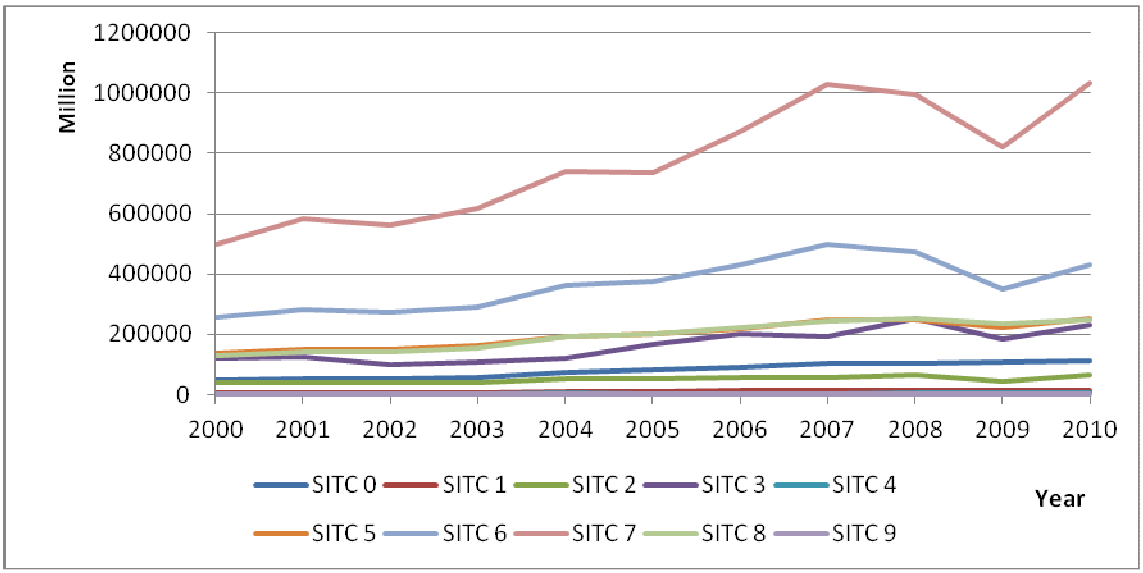


Source: Czech Statistical Office, own processing

Export of the Czech Republic is mainly to the European Union. It is relatively stable (difference of 1%) with exception of year 2009 when the numbers dropped down. Export to other countries grew over the last year about less than 1%.

Import represents also important part of trade and economy. The Czech Republic is not provided with all commodities or it does not have a big resources, so there is a need for imported goods. There has been a growth of import since 2005 which is mainly due to strengthening position of China on world markets. Import from China and Russia has grown stronger to the prejudice of exporters from the EU nations (decline by 5 % during 2005-2009). The Czech Republic is dependent on oil, natural gas, mineral oils, machine equipment etc. Because Russia and China are ones of the top ten suppliers, Russian export affected the Czech Republic and oil prices during oil crisis with Russia at the beginning of 2009. From the graph below it is obvious that main part of import produces machinery and its components, and transport equipment, for example telecommunication equipment and its parts, automatic data processing machines and unit thereof (but in lower volume than the Czech Republic exports).

Graph 3. Commodity Import of the Czech Republic at current prices (2000 - 2010)

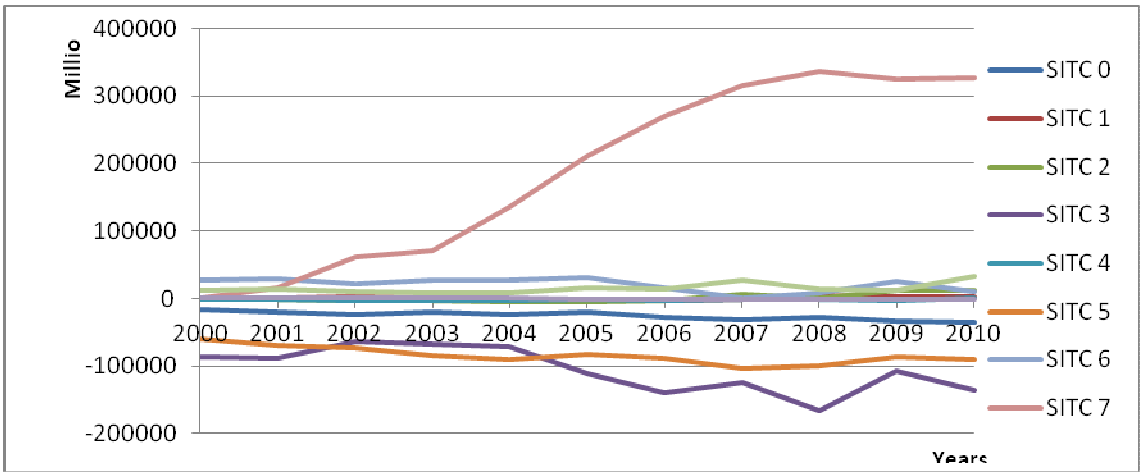


Source: Czech Statistical Office, own processing

Following graphs support above mentioned statement about highly dependency of Czech trade on machinery and transport equipment. Machinery and transport equipment is main leader of Czech export above Czech import. Major commodity exported is personal car which is produced by Škoda Auto or by Toyota Peugeot Citroën Automobile Czech (TPCA Kolín).

On the other side graph 4. shows that the Czech Republic is highly dependent on import of food, live animals, mineral fuels and oil. These commodities have negative balance of trade.

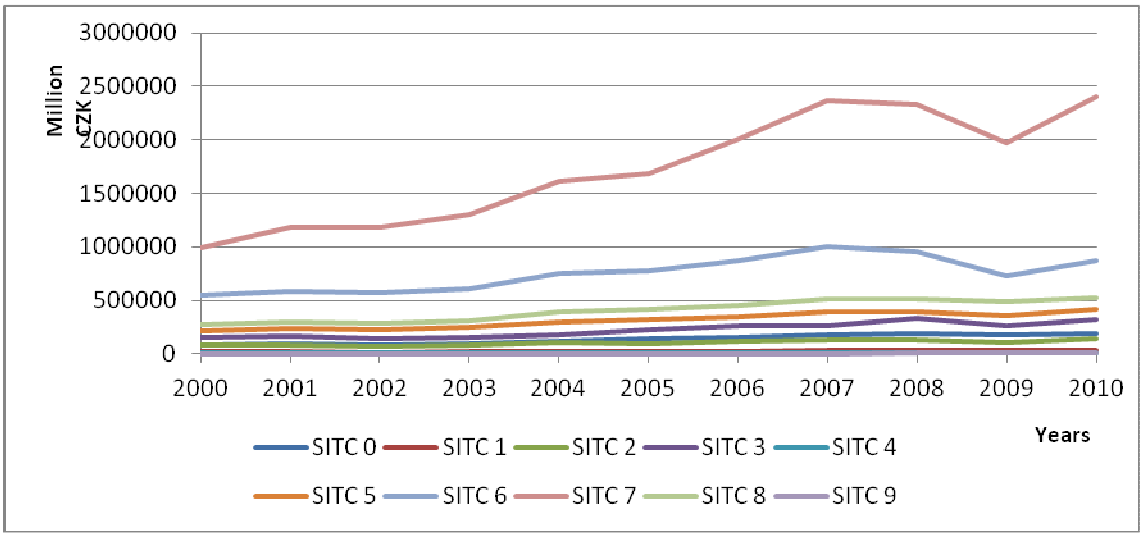
Graph 4. Balance of commodity trade of the Czech Republic at current prices (2000 - 2010)



Source: Czech Statistical Office, own processing

As it is obvious from the graph below the Czech Republic is decidedly on revenues from machine and vehicle production, mainly from production of motor cars (nearly 335 billion CZK) and its components (closely to 327 billion CZK). Other important category for turnover of the Czech Republic is manufacturing of imported materials and its production from it, as for example rubber tyres, heating and cooling equipment, electrical apparatus for switching electrical circuits, and monitors and projectors, receptions apparatus for television.

Graph 5. Turnover of commodity trade of the Czech Republic at current prices (2000 - 2010)



Source: Czech Statistical Office, own processing

5.5 Analysis of Traditional trade partners of the Czech Republic

The Czech Republic is highly integrated country in the foreign trade. Its location in Central Europe has helped to developed trade relationships with its neighbours: Germany, Austria, Slovakia and Poland. They are considered as a traditional trade partners according to long relationships.

The table below expresses top ten trading partners over past six years. Germany, Slovakia and Poland keep top positions as major trading partners. As the most significant trading partner can be pointed Germany for its export and import with the Czech Republic. Mutual trade with France, Italy and Russia has been almost stagnating during the past six years. The biggest change at position as a trading partner of the Czech Republic experienced Austria. Austria felt down to 7th position as a trading partner with the Czech Republic according to growing mutual trade with China since

2006. The Great Britain and the Netherlands occupy last places at ten trading partners of the Czech Republic.

Table 7. Position of trading partners of the Czech Republic by turnover

COUNTRY/YEAR	2005	2006	2007	2008	2009	2010
Germany	1	1	1	1	1	1
Slovakia	2	2	2	2	2	2
Poland	3	3	3	3	3	4
China	10	10	7	5	4	3
France	5	4	4	4	5	5
Italy	6	5	5	6	6	6
Austria	4	6	6	8	7	7
Russia	8	7	10	7	8	8
Netherlands	7	8	9	10	9	9
Great Britain	9	9	8	9	10	10

Source: MIT, own processing

China and Russia represent significant share of Czech import. For example they export computer and machine components, Chinese textile and shoes, Russian oil, natural gas, ores, rubber.

5.5.1 Germany

It was mentioned before that Germany is major trading partner of the Czech Republic. Trading partnership has its roots in postwar time when Germany was divided on eastern and western parts and former Czechoslovakia traded with Germany since then. There has the orientation on German market origins. The Czech Republic merchandises with Germany in billions EUR, respectively in hundreds of billions CZK. The following table represents yearly comparison of Czech trade with Germany. In case of Germany, Czech export is higher than Czech import.

Table 8. Comparison of commodity foreign trade between two years (mil. CZK)

YEAR	EXPORT	IMPORT	BALANCE
2008	759662	643327	**116334**
2009	694482	528649	**165833**
2010	802757	610350	**192407**

Source: MIT, own processing

From the table it can be seen that the year 2009 was the lowest on import and export, but during year 2010 mutual trade started to recover again. The turnover of the year 2010 was 1413 billion CZK which increased from the year 2009 by 200 billion CZK.

Table 9. Commodity trade with Germany by SITC (million CZK, 2010)

SITC category	Export to Germany	Import from Germany
Food and live animals	15 732	27 062
Beverages and tobacco	1 686	2 183
Crude materials, inedible, except fuels	25 459	9 545
Mineral fuels, lubricants and related materials	30 380	24 620
Animal and vegetable oils, fats and waxes	147	842
Chemicals and related products	33 015	80 544
Manufactured goods classified chiefly by material	141 885	135 778
Machinery and transport equipment	454 396	273 752
Miscellaneous manufactured articles	99 053	55 899
Commodities and transactions no classified in the SITC	1 003	124

Source: Czech Statistical Office, own processing

The table above displays commodity trade structure between Germany and the Czech Republic. Main merchandized commodities are machinery and transport equipment of category SITC 7. They represent almost 57% of total export to Germany. To express what commodities are traded and in what volume under category SITC 7, there is a table 10.

The most traded commodities are machinery and transport equipment. The numbers show that the Czech Republic export more to Germany than Germany export to the Czech Republic. Main export articles are personal cars which are exported two times more than imported from Germany. It is due to comparative advantage of the Czech Republic in automotive industry. Other important commodities are medicaments imported from Germany and electric energy exported from the Czech Republic.

Table 10. Commodity trade with Germany by SITC 7 (thousands CZK)

Commodity of SITC 7	Import from Germany	Export to Germany
Power-generating machinery and equipment	21 890 763	24 078 906
Machinery specialized for particular industries	19 282 119	22 358 943
Metalworking machinery	5 021 884	6 606 261
General industrial machinery and equipment, n.e.s.	45 202 917	53 494 518
Office machines and automatic data-processing machina	18 442 189	54 346 988
Telecommunications and sound-recording, equipment	15 605 920	47 495 066
Electrical machinery, apparatus and appliances, n.e.s.	69 405 197	107 256 280
Road vehicles (including air-cushion vehicles)	76 719 106	134 730 534
Other transport equipment	2 181 588	4 028 612

Source: Czech Statistical Office, own processing

5.5.2 Austria

Austria as southern neighbour has had always close trading relationships. As in example of Germany, Austria has also positive balance in trading with the Czech Republic. Following table presents volume of commodity trade among the Czech Republic and Austria.

Table 11. Comparison of commodity foreign trade between two years (mil. CZK)

YEAR	EXPORT	IMPORT	BALANCE
2008	117027	89476	**27551**
2009	100398	72424	**27974**
2010	118260	80612	**37648**

Source: Czech Statistical Office, own processing

Also in case of Austria the balance of trade has grown between years. Even with decrease in export in 2009, import from Austria declined too and actually more than export so the balance of trade has risen. The turnover of the year 2010 seven times lower than with Germany. It is 198 billion CZK which has risen from the previous year by over 200 billion CZK.

Table 12. Commodity trade with Austria by SITC (million CZK, 2010)

SITC category	Export to Austria	Import from Austria
Food and live animals	4190,57	5167,80
Beverages and tobacco	315,35	594,56
Crude materials, inedible, except fuels	11289,97	2403,55
Mineral fuels, lubricants and related materials	14897,83	6102,88
Animal and vegetable oils, fats and waxes	1488,97	177,90
Chemicals and related products	6198,06	9582,28
Manufactured goods classified chiefly by material	19914,42	22765,01
Machinery and transport equipment	44165,83	20608,86

Miscellaneous manufactured articles	15504,10	12413,59
Commodities and transactions no classified in the SITC	294,61	795,35

Source: Czech Statistical Office, own processing

In comparison to Germany, the foreign trade with Austria is much lower. But as well as with Germany, Czech export is mainly in machinery and transport equipment. Other valuable export commodities are wood and coal- these commodities are not traded between the Czech Republic and Germany. Austria is a significant exporter of mineral fuels and medicaments to the Czech Republic (but medicaments in ten times lower volume than Germany).

5.5.3 Slovakia

Slovakia has a short history as a single state as the Czech Republic too. It has started to develop its own economy and foreign trade in 1993. But according to common history with the Czech Republic as former Czechoslovakia, Slovakia kept trading with the Czech Republic along.

Table 13. Comparison of commodity foreign trade between two years (mil. CZK)

YEAR	EXPORT	IMPORT	BALANCE
2008	227567	133333	**94234**
2009	192068	107694	**111456**
2010	220 925	123 551	97 374

Source: Czech Statistical Office, own processing

In comparison foreign trade between the Czech republic and Slovakia, it can be assumed that as with two mentioned trading partners, Slovakia merchandized less goods during the year 2009 against previous year. But the year 2010 the trade between these

two countries has risen again. Slovakia is first country with higher decrease in export than import in 2009. In foreign trade with Germany or Austria import lowered more than export.

Table 14. Commodity trade with Slovakia by SITC (million CZK, 2010)

SITC category	Export to Slovakia	Import from Slovakia
Food and live animals	23 035	7 948
Beverages and tobacco	4 594	1 203
Crude materials, inedible, except fuels	6 755	6 031
Mineral fuels, lubricants and related materials	25 463	17 900
Animal and vegetable oils, fats and waxes	1 623	853
Chemicals and related products	21 989	11 626
Manufactured goods classified chiefly by material	40 365	36 901
Machinery and transport equipment	70 263	32 554
Miscellaneous manufactured articles	26 089	7 919
Commodities and transactions no classified in the SITC	750	618

Source: Czech Statistical Office, own processing

As in other trading partners, there displays export orientation on machinery, electric energy, automotive and transport industry, and electrotechnical industry. The most important commodities exported to Slovakia are medicaments, black coal and electric energy. On the other hand Slovakia exports mineral fuels (almost twice more than Austria) to the Czech Republic. Slovakia is also producer and exporter of various internal combustion engines and different paper products. Turnover of the Czech Republic with Slovakia is in recovery now. In the year 2010 the turnover was almost 345 billion CZK which is by 55 billion more that year before, but the year 2009 experienced big decline by almost 65 billion CZK from the previous year.

5.5.4 Poland

As the last nation from traditional trading partners of the Czech Republic is Poland. Poland has been trading partner for a long time, especially after world war II. Poland, as a nation of former eastern bloc and with its location in Central Europe, is important member of the European Union and disposes of large market with over 38 million inhabitants.

Poland became the only one from total four solved trading partners which got in negative balance of trade. Although balance of trade of Poland was almost 20 billion of CZK, the next year balance of trade decreased to negative nearly 3 billion CZK. Reason for this was huge decline in export to Poland (almost about 36 billion CZK) and not so big fall in volume of import from Poland (decreased just around 14 billion CZK). The following year 2010 the balance of trade became positive again, but it was not even tenth of balance in 2008.

Table 15. Comparison of commodity foreign trade between two years (mil. CZK)

YEAR	EXPORT	IMPORT	BALANCE
2008	160104	140796	**19308**
2009	124209	126916	**-2707**
2010	154 915	153 314	**1 600**

Source: Czech Statistical Office, own processing

Also as previous trading partners, Polish- Czech trade is oriented mainly on car, machine, transit and electrotechnical industries. Major export commodities to the Czech Republic are machine components, motor vehicles, engines, black coal and mineral fuels. On the other side the Czech Republic manufactures imported black coal and export it back as black coal and produced fuel from it.

Table 16. Commodity trade with Poland by SITC (million CZK, 2010)

SITC category	Export to Poland	Import from Poland
Food and live animals	8 443	17 784
Beverages and tobacco	899	1 993
Crude materials, inedible, except fuels	7 709	4 525
Mineral fuels, lubricants and related materials	9 912	13 807
Animal and vegetable oils, fats and waxes	477	287
Chemicals and related products	21 608	13 741
Manufactured goods classified chiefly by material	37 671	42 483
Machinery and transport equipment	55 267	42 818
Miscellaneous manufactured articles	12 867	15 858
Commodities and transactions no classified in the SITC	63	18

Source: Czech Statistical Office, own processing

Poland is also first of traditional trading partners which exceeded its pre-crisis turnover. During crisis in the year 2009, turnover of trade between Poland and the Czech Republic was decreased by over 50 billion CZK from the year 2008, but in 2010 it reached beyond 308 billion CZK and it is by 8 billion CZK more than in year 2008.

5.6 SWOT Analysis

Strengths

- Position in the Central Europe as a transition country
- Developed country
- Part of market of the European Union- its main trade partners
- Long history in industrialization
- High level of education and skilled labour forces

- Low wages and salaries of labour forces
- Politically and socially stable environment

Weaknesses

- Small internal market
- Scarcity of raw materials
- Trade dependency mainly on Germany
- Limited amount of labour forces
- Limited agricultural production due to mild climate
- Specialization mostly in one sector of industry
- Old technology in industries

Opportunities

- Export orientation on preferred markets by the Ministry of Industry and Trade of the Czech Republic
- Export subsidies supporting better competitiveness of Czech products on foreign markets
- Building good trading relationships with China
- More balanced commodity structure
- Better diversification of commodity trade

Threats

- End of agricultural subsidies (Polish agricultural surpluses could destroy Czech farmers)

- Another economic crisis
- Risk of floating exchange rate of US Dollar and Euro
- Crisis of German market

6 Conclusion

The goal of this diploma thesis was to identify commodity structure of foreign trade of the Czech Republic . By empirical analysis it searched changes in structure from the year 2000 and looked for commodity sectors which specialize in production, trading partners and future development. The period of time of analysis was divided on period before entering the European Union (2000 – 2004) and after entering the European Union (2005 - 2010).

The Czech Republic is small economy with high level of openness to external markets and products which means high intensity of foreign trade. In compliance with conclusions of classical and neoclassical theories of international trade it can be stated that external trade represents activity strengthening production and competitiveness of Czech products on home and foreign markets.

The Czech Republic enjoys its comparative advantage in production of cars and transport equipment as it was expected from post communistic countries. Other products which have a comparative advantage in export of them are traditional products typical for the Czech Republic with well known brand name such as Bohemia Crystal, Pilsner Urquell, Czech Garnet etc.

In case of foreign trade policies of the Czech Republic, they are conditioned by the European Union and its common trade policies, so the way how the Czech Republic can influence its external trade is by providing support to entrepreneurs and companies. For this there is announced Export Strategy by Czech government which should provide more business opportunities to entrepreneurs and increase export capacities. Strategy had its goals and they were proved as a successful according to growth of GDP and increasing of world trade share of the Czech Republic.

Commodity export of the Czech Republic is industrial oriented and it has its roots in history. Nowadays the export is not so various – key export commodities are motor vehicles and its components. Other specialization of Czech trade is that imported raw materials are manufactured here and then exported abroad.

Total import in the Czech Republic focuses on agricultural production, fuels and raw materials for industrial production, machines and developed technologies abroad. By import of these products there can be amended the limits given by natural conditions (insufficient base of raw materials, limited area, climatic and soil conditions) and also economic conditions (small internal market, high industrialization, scarcity of national capital).

There were mentioned traditional trade partners with which the Czech republic trades the most. They have not change over the years. Their commodity trade is mainly specified on machinery, vehicles and their components.

The hypothesis of this diploma thesis was to confirm that the Czech Republic got through the financial crisis in its commodity trade and it was proved by a comparative analysis over the years. It showed big decrease in the year 2009 as delayed reaction to world economic crisis and statistics for following year 2010 and the year 2011 present repeated growth of external trade and increase of all economic indicators supporting international trade of the Czech Republic with other countries, mainly on Germany which economy situation has major effect on Czech economy.

As a recommendation to future, it could be good to advice more diversification among traded commodities and markets- dependence on one sector or can be crucial as statistics proved.

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9 Apendix

All tables are soused from Czech Statistical Office and data are adjusted for seasonality.

Commodity Export of the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	32998,21	34397,58	31135,86	36398,70	47429,75	61061,94	61972,37	71873,77	77940,29	73907,72	77994,54
SITC 1	8395,93	8743,87	8557,69	8193,63	8923,86	10609,21	10689,07	14457,32	16385,44	16156,25	16856,61
SITC 2	39565,34	38608,49	35093,74	38421,63	47314,62	47193,11	54974,99	64864,32	64648,79	57539,40	76042,20
SITC 3	34246,29	38151,69	35952,35	39434,25	49937,63	57393,49	61822,43	67542,13	84290,36	77570,82	93672,40
SITC 4	1253,62	1429,67	977,89	1004,95	1042,83	1759,46	1577,12	2050,19	2816,30	2937,00	4238,18
SITC 5	79596,20	81862,00	74740,96	80579,03	103951,39	118974,53	129935,90	144154,31	147321,49	136420,35	163487,83
SITC 6	285138,98	309131,51	294000,34	316410,26	388539,97	406323,76	445260,23	501110,83	482522,90	376391,15	438727,44
SITC 7	498401,67	599705,88	622998,23	687200,83	876137,61	949152,49	1141747,40	1343396,03	1331007,21	1145472,62	1363075,99
SITC 8	140486,35	154835,57	149506,74	161509,11	198492,30	215575,31	235930,82	268955,47	265491,72	250201,07	278800,40
SITC 9	1016,36	1283,01	1896,41	1777,56	100,37	542,55	663,06	829,50	1311,08	2026,75	2969,43

Commodity Import of the Czech Republic(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	50198,838	53656,554	54167,867	57086,8	72149,704	81647,879	88993,688	102936,179	105242,724	106900,836	113033,252
SITC 1	7386,292	7268,045	6598,492	7530,015	10667,512	11781,284	12989,51	15721,023	12660,189	13451,816	14399,492
SITC 2	39380,865	40030,442	38188,766	40955,961	52915,546	51355,543	57316,507	58315,742	64150,719	44789,753	64175,321
SITC 3	119936,556	125738,844	100248,121	107788,563	122145,778	167614,361	200790,573	191315,518	250209,628	183966,382	229422,237
SITC 4	2640,127	3142,443	3028,175	3764,028	4162,11	3625,968	3745,152	3327,451	4518,689	5475,973	4066,134
SITC 5	139101,744	151022,196	148406,308	164435,368	194833,362	201476,142	219076,869	248457,416	247100,579	222617,977	254293,823
SITC 6	257870,52	280091,225	272973,99	289838,053	360757,377	374319,057	428545,861	500236,88	474478,554	350998,156	428601,245
SITC 7	496702,715	584414,394	561745,09	616257,956	739946,498	736902,547	870733,502	1028045,236	994812,235	821222,576	1035198,271
SITC 8	128286,894	139854,558	140042,426	152707,663	190676,213	199979,232	221503,649	241653,941	251283,679	237305,231	246644,404
SITC 9	419,267	345,384	271,731	358,731	841,179	1259,837	1117,061	1309,184	2032,279	2307,289	3206,913

Balance of commodity of the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	-17200,6	-19258,977	-23032,003	-20688,1	-24719,958	-20585,944	-27021,315	-31062,412	-27302,437	-32993,113	-35038,71
SITC 1	1009,634	1475,822	1959,194	663,613	-1743,655	-1172,073	-2300,437	-1263,708	3725,248	2704,43	2457,117
SITC 2	184,476	-1421,953	-3095,031	-2534,332	-5600,927	-4162,43	-2341,516	6548,573	498,067	12749,642	11866,876
SITC 3	-85690,3	-87587,157	-64295,766	-68354,312	-72208,151	-110220,875	-138968,147	-123773,39	-165919,27	-106395,566	-135749,842
SITC 4	-1386,51	-1712,773	-2050,291	-2759,075	-3119,284	-1866,511	-2168,035	-1277,266	-1702,385	-2538,974	172,046
SITC 5	-59505,5	-69160,193	-73665,347	-83856,335	-90881,976	-82501,611	-89140,968	-104303,105	-99779,091	-86197,628	-90805,995
SITC 6	27268,46	29040,285	21026,351	26572,206	27782,593	32004,698	16714,366	873,95	8044,35	25392,997	10126,199
SITC 7	1698,957	15291,487	61253,136	70942,877	136191,108	212249,942	271013,896	315350,792	336194,979	324250,043	327877,723
SITC 8	12199,45	14981,01	9464,31	8801,442	7816,091	15596,083	14427,171	27301,532	14208,037	12895,843	32155,995
SITC 9	597,088	937,621	1624,682	1418,833	46,18	-717,292	-454,002	-479,682	-721,204	-280,535	-237,482

Turnover of commodity of the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	83197,05	88054,131	85303,731	93485,5	119579,45	142709,814	150966,061	174809,947	183183,011	180808,558	191027,794
SITC 1	15782,22	16011,911	15156,178	15723,642	19591,369	22390,495	23678,584	30178,339	29045,627	29608,061	31256,101
SITC 2	78946,21	78638,932	73282,502	79377,59	100230,164	98548,657	112291,498	123180,057	128799,504	102329,148	140217,518
SITC 3	154182,8	163890,532	136200,475	147222,814	172083,405	225007,847	262612,998	258857,647	334499,986	261537,198	323094,632
SITC 4	3893,744	4572,112	4006,059	4768,981	5204,937	5385,424	5322,268	5377,636	7334,992	8412,972	8304,315
SITC 5	218697,9	232884,198	223147,27	245014,401	298784,747	320450,674	349012,771	392611,727	394422,068	359038,327	417781,651
SITC 6	543009,5	589222,734	566974,332	606248,313	749297,347	780642,811	873806,088	1001347,711	957001,458	727389,309	867328,688
SITC 7	995104,4	1184120,275	1184743,315	1303458,788	1616084,103	1686055,036	2012480,899	2371441,264	2325819,45	1966695,195	2398274,265
SITC 8	268773,2	294690,126	289549,162	314216,769	389168,517	415554,546	457434,47	510609,413	516775,395	487506,305	525444,804
SITC 9	1435,623	1628,39	2168,145	2136,294	1728,537	1802,382	1780,119	2138,686	3343,354	4334,043	6176,345

AUSTRIA – THE CZECH REPUBLIC

Import from Austria to the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	2132,57	2091,82	1966,13	2104,56	2515,59	3125,37	4148,40	4824,77	5270,63	5176,06	5167,80
SITC 1	428,23	457,28	435,41	567,88	923,90	1192,65	847,30	915,45	626,12	550,74	594,56
SITC 2	1088,14	1068,09	1016,36	1100,45	1349,07	2035,22	2221,87	2445,02	2147,27	1756,80	2403,55
SITC 3	6803,05	5865,34	2991,57	2714,40	4435,69	7107,21	4035,12	8120,90	10073,47	8196,54	6102,88
SITC 4	165,47	113,01	66,09	89,13	132,13	67,06	139,59	75,58	180,49	136,31	177,90
SITC 5	7229,49	7680,38	6935,82	7329,69	8448,11	8133,89	8967,60	10221,08	10359,15	9458,70	9582,28
SITC 6	18264,80	19532,47	18262,34	18231,33	20628,59	20753,23	23330,94	26714,03	25936,71	18658,57	22765,01
SITC 7	19290,67	21156,38	19586,26	22565,67	23880,97	22278,71	25604,63	29250,00	25453,65	17227,10	20608,86
SITC 8	5865,76	6396,19	6264,65	6976,05	7724,70	8202,69	9117,34	8432,89	9283,09	10810,59	12413,59
SITC 9	64,02	70,62	26,58	78,18	19,06	129,21	112,73	86,79	145,87	500,85	795,35

Export to Austria from the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	1075,46	909,40	1124,48	1277,94	2613,03	3410,34	3403,23	3587,22	4417,64	4183,88	4190,57
SITC 1	123,10	134,38	175,46	468,31	321,36	231,77	307,05	297,70	311,43	390,17	315,35
SITC 2	8175,04	8962,31	8375,10	10566,41	9764,23	8503,73	9576,04	10061,81	10236,99	8377,87	11289,97
SITC 3	6356,66	7807,94	8440,95	10619,06	9582,82	13058,20	10157,83	9234,25	13763,66	11157,94	14897,83
SITC 4	45,27	33,18	21,34	39,85	34,17	71,60	112,71	220,11	310,11	606,60	1488,97
SITC 5	2802,67	2871,01	2514,20	2689,40	3294,79	4007,27	4662,72	5256,52	5836,91	5615,66	6198,06
SITC 6	14280,83	15765,15	13904,09	15390,37	19747,37	17638,36	20622,54	22408,15	21993,98	17281,10	19914,42
SITC 7	24536,97	26052,10	25177,01	34112,86	45932,27	41816,55	46619,49	49812,92	46480,76	39122,14	44165,83
SITC 8	9508,99	10458,99	9703,38	10383,75	12392,61	15899,70	13995,31	12876,28	13605,92	13110,51	15504,10
SITC 9	50,90	59,14	17,86	69,14	15,21	30,05	46,41	48,28	70,06	160,91	294,61

Balance of trade of the Czech Republic with Austria(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	-1057,11	-1182,42	-841,66	-826,62	97,44	284,97	-745,17	-1237,55	-852,99	-992,18	-977,24
SITC 1	-305,14	-322,89	-259,95	-99,57	-602,55	-960,89	-540,25	-617,76	-314,69	-160,57	-279,21
SITC 2	7086,90	7894,22	7358,74	9465,96	8415,15	6468,52	7354,17	7616,79	8089,72	6621,08	8886,43
SITC 3	-446,38	1942,60	5449,38	7904,66	5147,13	5950,99	6122,72	1113,35	3690,19	2961,41	8794,95
SITC 4	-120,20	-79,83	-44,76	-49,29	-97,96	4,53	-26,88	144,53	129,62	470,29	1311,07
SITC 5	-4426,82	-4809,36	-4421,62	-4640,29	-5153,32	-4126,62	-4304,88	-4964,56	-4522,24	-3843,04	-3384,22
SITC 6	-3983,98	-3767,32	-4358,25	-2840,96	-881,22	-3114,87	-2708,40	-4305,88	-3942,73	-1377,47	-2850,59
SITC 7	5246,30	4895,73	5590,76	11547,19	22051,29	19537,84	21014,86	20562,92	21027,11	21895,04	23556,97
SITC 8	3643,23	4062,81	3438,74	3407,71	4667,90	7697,01	4877,97	4443,39	4322,83	2299,92	3090,51
SITC 9	-13,12	-11,47	-8,72	-9,04	-3,85	-99,17	-66,32	-38,51	-75,81	-339,94	-500,74

Turnover of commodity trade of the Czech Republic with Austria(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	3208,03	3001,22	3090,61	3382,49	5128,62	6535,70	7551,63	8412,00	9688,28	9359,94	9358,37
SITC 1	551,33	591,66	610,86	1036,19	1245,26	1424,42	1154,35	1213,15	937,55	940,91	909,91
SITC 2	9263,17	10030,40	9391,45	11666,86	11113,30	10538,95	11797,91	12506,84	12384,27	10134,67	13693,52
SITC 3	13159,71	13673,27	11432,51	13333,46	14018,50	20165,40	14192,95	17355,14	23837,13	19354,48	21000,71
SITC 4	210,74	146,20	87,43	128,98	166,30	138,66	252,30	295,69	490,60	742,90	1666,88
SITC 5	10032,15	10551,39	9450,02	10019,09	11742,90	12141,16	13630,33	15477,59	16196,06	15074,36	15780,33
SITC 6	32545,63	35297,62	32166,43	33621,71	40375,96	38391,59	43953,48	49122,19	47930,69	35939,67	42679,44
SITC 7	43827,64	47208,48	44763,27	56678,53	69813,24	64095,26	72224,13	79062,92	71934,41	56349,24	64774,70
SITC 8	15374,75	16855,18	15968,03	17359,80	20117,31	24102,39	23112,66	21309,17	22889,01	23921,10	27917,69
SITC 9	114,92	129,76	44,44	147,32	34,27	159,26	159,14	135,07	215,93	661,76	1089,96

GERMANY – THE CZECH REPUBLIC

Import from Germany to the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	8 393	9 919	10 347	11 075	15 545	18 408	19 260	24 011	25 692	26 254	27 062
SITC 1	460	559	527	740	1 876	2 588	2 112	2 356	1 486	1 882	2 183
SITC 2	6 846	6 669	6 262	6 178	7 526	8 037	9 277	9 391	8 828	7 901	9 545
SITC 3	7 913	8 405	7 384	6 665	8 207	10 418	14 668	19 950	22 390	21 133	24 620
SITC 4	937	1 284	1 168	1 901	1 568	1 340	1 056	997	1 611	1 183	842
SITC 5	46 647	49 766	48 564	54 180	63 523	64 453	69 855	79 250	77 605	69 047	80 544
SITC 6	97 631	107 080	105 199	112 277	131 247	130 702	145 816	163 769	150 322	116 160	135 778
SITC 7	188 914	233 074	205 420	225 561	260 845	253 039	275 847	307 497	293 118	230 522	273 752
SITC 8	42 530	47 088	45 436	50 538	63 892	61 106	61 291	62 790	62 016	54 440	55 899
SITC 9	267	218	172	204	109	404	240	173	260	127	124

Export to Germany from the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	5 272	5 541	5 161	6 939	8 479	14 460	14 161	16 264	16 534	16 579	15 732
SITC 1	1 967	1 890	1 972	1 282	1 501	1 456	1 639	1 694	1 622	1 710	1 686
SITC 2	15 420	14 312	12 279	12 484	16 079	15 390	19 225	24 442	23 458	18 563	25 459
SITC 3	13 632	13 053	12 623	12 259	16 260	16 214	20 183	21 365	27 737	31 061	30 380
SITC 4	214	217	212	252	301	776	868	1 253	422	155	147
SITC 5	20 391	19 955	17 281	19 732	26 259	28 452	29 285	30 796	32 350	30 097	33 015
SITC 6	112 940	115 805	105 439	114 030	132 158	130 560	145 996	158 952	152 413	118 434	141 885
SITC 7	213 867	238 647	231 163	261 318	329 065	328 019	362 926	413 522	412 360	387 689	454 396
SITC 8	69 197	74 611	69 584	77 349	92 311	92 910	90 494	93 737	92 306	89 343	99 053
SITC 9	621	846	1 421	1 509	686	293	195	313	462	851	1 003

Balance of trade of the Czech Republic with Germany(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	-3 121	-4 378	-5 186	-4 136	-7 066	-3 948	-5 099	-7 747	-9 158	-9 675	-11 330
SITC 1	1 507	1 331	1 445	541	-374	-1 132	-472	-661	136	-172	-498
SITC 2	8 575	7 643	6 017	6 306	8 553	7 353	9 949	15 051	14 630	10 662	15 914
SITC 3	5 719	4 648	5 239	5 593	8 053	5 795	5 515	1 415	5 347	9 928	5 760
SITC 4	-724	-1 066	-956	-1 649	-1 268	-564	-188	256	-1 189	-1 028	-695
SITC 5	-26 256	-29 811	-31 283	-34 448	-37 263	-36 001	-40 570	-48 454	-45 255	-38 949	-47 529
SITC 6	15 310	8 726	240	1 753	911	-142	180	-4 817	2 091	2 274	6 107
SITC 7	24 954	5 573	25 743	35 758	68 220	74 980	87 079	106 025	119 241	157 168	180 644
SITC 8	26 666	27 523	24 147	26 811	28 420	31 804	29 203	30 947	30 290	34 903	43 154
SITC 9	354	628	1 249	1 305	578	-111	-45	140	202	723	879

Turnover of commodity trade of the Czech Republic with Germany(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	13 665	15 461	15 507	18 014	24 023	32 868	33 421	40 276	42 226	42 833	42 793
SITC 1	2 427	2 449	2 499	2 022	3 377	4 044	3 751	4 050	3 107	3 592	3 869
SITC 2	22 266	20 980	18 542	18 662	23 604	23 427	28 502	33 834	32 286	26 464	35 005
SITC 3	21 545	21 458	20 006	18 924	24 467	26 632	34 851	41 316	50 127	52 194	55 000
SITC 4	1 151	1 501	1 380	2 153	1 869	2 116	1 924	2 251	2 033	1 338	989
SITC 5	67 038	69 722	65 845	73 912	89 782	92 905	99 141	110 046	109 955	99 144	113 560
SITC 6	210 571	222 885	210 638	226 307	263 405	261 261	291 812	322 721	302 734	234 593	277 663
SITC 7	402 781	471 720	436 583	486 879	589 910	581 058	638 773	721 019	705 478	618 211	728 148
SITC 8	111 727	121 699	115 020	127 888	156 203	154 016	151 786	156 528	154 321	143 784	154 952
SITC 9	888	1 064	1 593	1 713	795	697	436	486	721	978	1 127

POLAND – THE CZECH REPUBLIC

Import from Poland to the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	4 715	5 064	4 945	5 647	8 075	11 242	13 667	14 661	15 086	16 529	17 784
SITC 1	79	158	264	270	436	664	1 997	2 316	1 220	1 818	1 993
SITC 2	1 290	1 602	1 537	2 272	3 335	2 227	3 401	3 586	3 681	2 681	4 525
SITC 3	5 179	7 191	7 960	9 981	16 225	13 018	13 541	14 179	13 347	10 441	13 807
SITC 4	31	25	12	14	17	86	145	219	607	1 112	287
SITC 5	5 199	6 125	5 790	6 307	8 719	9 391	10 735	13 163	13 668	10 895	13 741
SITC 6	14 108	16 245	16 170	16 906	23 709	26 128	33 811	40 096	38 731	29 575	42 483
SITC 7	6 933	8 304	8 711	9 786	12 314	15 460	26 873	32 686	37 391	38 237	42 818
SITC 8	6 799	7 938	7 796	8 626	10 285	12 782	14 653	16 232	17 054	15 348	15 858
SITC 9	0	1	0	0	0	2	4	12	11	8	18

Export to Poland from the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	6 157	5 111	4 417	5 078	5 081	5 990	7 040	8 310	9 591	7 379	8 443
SITC 1	119	234	176	106	357	656	893	1 094	796	710	899
SITC 2	1 602	2 037	1 640	1 406	3 214	2 694	3 723	4 814	5 419	5 580	7 709
SITC 3	3 435	4 505	2 845	2 735	4 446	6 106	6 091	8 363	12 350	5 877	9 912
SITC 4	133	111	90	79	125	242	42	116	304	258	477
SITC 5	8 912	10 141	8 576	8 466	10 918	12 120	13 891	15 838	17 429	16 226	21 608
SITC 6	18 802	21 616	19 135	20 010	26 203	30 169	33 994	41 890	42 084	30 295	37 671
SITC 7	16 907	17 346	18 307	24 062	34 436	35 793	44 660	52 722	57 066	44 787	55 267
SITC 8	4 830	4 688	4 060	3 732	5 640	8 566	11 040	13 888	15 013	11 883	12 867
SITC 9	1	0	0	0	5	5	12	19	52	69	63

Balance of trade of the Czech Republic with Poland(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	1 443	47	-528	-569	-2 994	-5 252	-6 627	-6 351	-5 495	-9 150	-9 341
SITC 1	40	76	-88	-164	-78	-7	-1 104	-1 222	-424	-1 108	-1 094
SITC 2	313	435	102	-866	-121	466	322	1 228	1 738	2 900	3 183
SITC 3	-1 743	-2 686	-5 115	-7 246	-11 779	-6 912	-7 450	-5 817	-996	-4 565	-3 896
SITC 4	102	86	78	65	109	157	-103	-103	-303	-854	190
SITC 5	3 713	4 017	2 786	2 159	2 199	2 729	3 156	2 675	3 761	5 332	7 867
SITC 6	4 693	5 372	2 964	3 104	2 494	4 040	183	1 794	3 353	721	-4 812
SITC 7	9 974	9 042	9 596	14 275	22 123	20 333	17 787	20 036	19 674	6 550	12 449
SITC 8	-1 969	-3 250	-3 736	-4 894	-4 645	-4 216	-3 613	-2 344	-2 041	-3 466	-2 991
SITC 9	0	-1	0	0	5	4	9	7	41	61	45

Turnover of commodity trade of the Czech Republic with Poland(at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	10 872	10 175	9 362	10 726	13 156	17 231	20 708	22 970	24 678	23 908	26 227
SITC 1	198	392	440	375	793	1 320	2 890	3 411	2 016	2 528	2 893
SITC 2	2 892	3 640	3 177	3 678	6 548	4 921	7 125	8 400	9 100	8 261	12 234
SITC 3	8 614	11 696	10 804	12 716	20 670	19 125	19 633	22 542	25 697	16 318	23 719
SITC 4	164	136	101	94	142	328	188	336	910	1 370	764
SITC 5	14 111	16 266	14 366	14 772	19 637	21 511	24 626	29 002	31 098	27 121	35 348
SITC 6	32 910	37 861	35 305	36 916	49 911	56 297	67 805	81 986	80 815	59 870	80 153
SITC 7	23 840	25 650	27 019	33 848	46 750	51 253	71 533	85 409	94 457	83 024	98 085
SITC 8	11 628	12 626	11 856	12 358	15 925	21 348	25 693	30 120	32 067	27 231	28 725
SITC 9	1	1	0	0	6	7	16	31	63	77	81

SLOVAKIA – THE CZECH REPUBLIC

Import from Slovakia to the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	4 280	4 783	5 214	5 469	6 503	7 327	8 772	9 641	8 586	7 985	7 948
SITC 1	1 104	1 164	1 054	1 552	1 127	904	914	1 163	1 206	1 359	1 203
SITC 2	2 593	2 722	2 699	2 659	4 108	3 907	4 984	5 478	6 553	6 220	6 031
SITC 3	13 116	13 964	11 643	13 236	15 379	19 304	21 445	21 714	23 433	15 652	17 900
SITC 4	336	435	470	550	665	351	346	270	335	1 248	853
SITC 5	10 431	9 997	8 911	8 769	9 864	10 013	10 696	11 558	12 271	9 619	11 626
SITC 6	26 924	24 943	22 542	23 915	31 661	34 824	38 682	42 955	43 924	30 673	36 901
SITC 7	10 486	11 907	10 504	12 066	16 685	14 871	18 400	25 881	27 592	27 158	32 554
SITC 8	5 241	5 890	6 255	6 426	7 826	8 133	8 435	8 849	8 999	8 354	7 919
SITC 9	70	53	56	68	96	168	176	364	433	355	618

Export to Slovakia from the Czech Republic (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	6 955	8 232	7 538	7 417	10 785	15 029	16 268	19 648	22 360	20 367	23 035
SITC 1	2 748	3 047	3 325	3 321	3 267	4 771	3 457	5 456	4 036	3 883	4 594
SITC 2	2 072	2 154	2 381	2 573	3 229	3 365	4 067	4 899	6 237	5 269	6 755
SITC 3	4 975	6 186	6 784	9 011	12 886	15 105	16 424	21 284	21 428	18 258	25 463
SITC 4	495	762	254	294	371	422	403	302	1 446	1 412	1 623
SITC 5	11 658	12 244	10 814	11 304	15 150	16 698	18 801	20 343	21 418	18 486	21 989
SITC 6	22 047	25 312	23 628	26 318	35 528	35 265	39 976	48 427	49 707	36 393	40 365
SITC 7	25 650	32 952	30 854	36 894	49 394	53 737	61 322	72 196	75 225	59 890	70 263
SITC 8	9 396	11 023	11 093	11 924	14 849	16 882	19 560	22 044	25 282	22 532	26 089
SITC 9	58	64	75	58	84	75	180	203	428	455	750

Balance of trade of the Czech Republic with Slovakia (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	2 675	3 449	2 324	1 947	4 281	7 702	7 496	10 007	13 774	12 382	15 087
SITC 1	1 644	1 883	2 271	1 769	2 140	3 867	2 544	4 293	2 830	2 524	3 391
SITC 2	-521	-569	-318	-87	-879	-542	-917	-580	-317	-950	724
SITC 3	-8 141	-7 778	-4 859	-4 225	-2 494	-4 199	-5 021	-430	-2 005	2 606	7 563
SITC 4	159	327	-216	-257	-294	70	56	33	1 111	164	770
SITC 5	1 227	2 247	1 903	2 535	5 286	6 684	8 105	8 784	9 147	8 867	10 363
SITC 6	-4 877	369	1 086	2 403	3 867	441	1 295	5 472	5 783	5 720	3 465
SITC 7	15 165	21 045	20 349	24 827	32 709	38 867	42 922	46 315	47 633	32 733	37 709
SITC 8	4 155	5 133	4 837	5 498	7 023	8 749	11 126	13 196	16 283	14 179	18 171
SITC 9	-12	11	18	-11	-12	-93	4	-162	-5	100	132

Turnover of commodity trade of the Czech Republic with Slovakia (at current prices, mil.CZK)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SITC 0	11 235	13 015	12 752	12 886	17 288	22 356	25 041	29 289	30 947	28 352	30 982
SITC 1	3 853	4 211	4 378	4 874	4 394	5 675	4 371	6 620	5 242	5 242	5 798
SITC 2	4 665	4 876	5 081	5 232	7 337	7 271	9 052	10 377	12 790	11 489	12 786
SITC 3	18 091	20 150	18 427	22 247	28 265	34 409	37 869	42 998	44 861	33 909	43 363
SITC 4	832	1 197	724	844	1 037	773	749	572	1 780	2 660	2 475
SITC 5	22 089	22 242	19 725	20 074	25 014	26 711	29 497	31 901	33 690	28 105	33 614
SITC 6	48 971	50 255	46 170	50 233	67 190	70 089	78 658	91 382	93 630	67 067	77 266
SITC 7	36 136	44 859	41 358	48 960	66 079	68 608	79 722	98 078	102 817	87 048	102 817
SITC 8	14 637	16 914	17 348	18 350	22 675	25 015	27 995	30 893	34 281	30 886	34 008
SITC 9	129	117	131	126	179	242	355	567	861	810	1 367