

IV. External trade of the Czech Republic in the first year of membership of the European Union

External trade⁴ in the first year following the accession of the Czech Republic to the EU (May 2004 to April 2005), in comparison to the corresponding period before the accession of the Czech Republic to the EU (May 2003 to April 2004), underwent some changes that are related to integration in the enlarged market of the European Union. The internal market for Czech companies grew and the conditions of trading changed substantially. Customs bars were removed, obstacles to crossing the state borders within the European Union were taken away, and transaction costs dropped. All this favourably affected the results of external trade, which is proved by growth rates of both exports and imports, a considerable improvement of the balance of trade, and changes in the territorial and commodity structure of external trade.

The **development of external trade in the first year after the accession of the Czech Republic to the EU** was **characterised**, if compared to the corresponding period before the accession to the EU, in particular by:

- **high growth rates of exports and imports**, which resulted in higher external trade turnover by 20.6% in the period of membership⁵. External trade turnover reached CZK 3 569.2 billion (of which exports CZK 1 790.2 billion and imports CZK 1 779.0 billion), which was by CZK 609.1 billion more than in the year before the accession. A higher share in the increase of external trade turnover had exports (56.4%), which rose by 23.8% (CZK 343.8 billion); the effect of imports, which were higher by 17.5% (CZK 265.3 billion), was 43.6%. The above-mentioned growth rates are high also in comparison to the dynamics of external trade of the EU25, which is documented by data of Eurostat available at the moment for the ten months following the EU enlargement. In that period (May 2004 to February 2005), EUR-based EU25 exports were up by 8.2% (EU15 +7.2%) on average and EU25 imports by 10.1% (EU15 +9.4%) on average, compared to the corresponding period before the EU enlargement (May 2003 to February 2004). Exports from and imports to the ten states (EU10) that became EU members on 1 May 2004 grew by 23.3% and 18.7%, respectively, on average in the same period. The share of the new member states in total EU25 exports was 7.4% (Czech Republic 1.9%) and their share in total EU25 imports stood at 8.3% (CR 1.9%). The share of the Czech Republic in total EU10 exports reached 26.0%, as against 24.4% before joining the EU, and the share in total EU10 imports was 23.2%, as against 22.1% before the EU enlargement.
- **higher growth rate of exports than growth rate of imports by 6.3 percentage points, which caused an essential change in the balance of trade**. Trade gap amounting to CZK 67.3 billion before the EU membership (May 2003 to April 2004) turned into a surplus of CZK 11.2 billion in the first year after the accession; the balance of trade thus improved by CZK 78.5 billion. The coverage of imports by exports grew from 95.6% to 100.6% between the periods compared. The balance of trade improved (deficit lowered or surplus rose) territorially with all group of countries, with the exception of CIS countries⁶ and 'other states'⁷, and in terms of commodity structure in all sections of the SITC other than 'crude materials, inedible, and mineral fuels', 'miscellaneous manufactured articles' and 'agricultural and food crude materials and products'.

Changes (administrative and economic) **that external trade underwent after the accession of the CR to the EU** affected in particular:

- **the way of data collection**, which changed principally for the decisive part of external trade where closely checked data with legal force from former customs documents were replaced with data from special administrative surveys (Intrastat). Through these surveys, mainly data on trade with the EU member states are collected directly from companies (recipients and consignors of goods) in a link to VAT data. The remaining part of external trade, especially with third countries (outside the EU) is subject to the classical customs procedure, which is the data source for statistics (Extrastat). The combining of these two systems produces data of external trade statistics; however, the simplified principle that Intrastat includes only intra-EU trade and Extrastat only extra-EU trade does not hold good;
- **methodology and legislation of external trade**. The scope of these changes did not damage the long-term comparability of data of external trade statistics;
- **external trade policy**. The common EU external trade policy towards non-EU countries opened new opportunities for external trade of the Czech Republic. Above the framework of general trade rules (WTO), the EU had concluded preference agreements (on the customs union or on free trade) with a higher number of states and with some groups of countries, which ensured more favourable conditions of trading for the EU. After joining the EU, the Czech Republic makes use of these conditions. At the same time, however, a number of agreements came out of force that had been concluded by the Czech Republic with some states in the period before the accession.

A closer look at the **territorial orientation of external trade** shows that exports rose to all groups of countries except for 'other states' and imports grew from all groups of countries with the exception of developing economies.

⁴ All the data are at current prices. Data for 2004 are updated and refer to 27 May 2005 closing date; data for January-March 2005 are updated and data for April 2005 preliminary and both refer to 27 May 2005.

⁵ In the period of May 2003 to April 2004, compared to May 2002 to April 2003, external trade turnover grew by 12.3% (CZK 325.3 billion), of which exports by 12.9% (CZK 165.8 billion) and imports by 11.8% (CZK 159.5 billion).

⁶ Commonwealth of Independent States.

⁷ China, North Korea, Cuba, Laos, Mongolia and Vietnam.

Slightly below-the-average dynamics of **exports** to the EU25 (22.5%) rather weakened the position of the EU25 in total exports (nevertheless, this position dominates) in favour of particularly developing economies, European transition economies and the CIS countries; although the share of these three groups of countries in total exports is incomparably lower (8.3%), its strengthening in the period after the accession by 1.2 percentage points is viewed favourably. Prevailing part (82%) of the increase in total export is attributable to higher exports to the EU25. The overall growth rate of exports to the EU25 mirrors different dynamics of exports to individual EU member states. An above-the-average growth was recorded for exports to Hungary, Belgium, Sweden, Spain, Slovakia, France and Poland, lower dynamics were seen in exports to Austria, Italy, Germany, the United Kingdom and the Netherlands. Among exports to other countries (outside the EU), worth mentioning are higher exports to Russia, the Ukraine and Japan and a considerable fall in exports to China.

Above-the-average dynamics of **imports** from the EU25 (18.2%) strengthened moderately the prevailing share of the EU25 in total imports at the account of the position of developing economies and 'other states' (together by 2.2 percentage points). The share of European transition economies and CIS countries in total imports rose insignificantly. Out of growth of total imports, nearly 74% was due to higher imports from the EU25. Dynamics of imports from individual EU25 member states varied markedly. A highly above-the-average rise was reported for imports from the Netherlands, Spain, Poland, Slovakia, Sweden and the United Kingdom, below-the-average growth was observed for imports from Austria, Germany, Italy, Hungary, Belgium and France. Among imports from other states (outside the EU25), considerable increases were recorded for imports from Japan and the United States and an insignificant increase for imports from China.

The development of exports and imports in relation to the main groups of countries showed itself in the total **balance of trade**. In the period of membership, the surplus of the balance of trade was largely affected by the high surplus of trade (CZK 256.3 billion) with the EU25, which grew by CZK 85.6 billion against the period before the membership. Surplus of the balance of trade (CZK 8.0 billion) was achieved in relation to European transition economies. Considerably lower (by CZK 20.7 billion) was deficit of trade with developing economies; deficit of external trade with the CIS countries and with 'other states' (where the biggest imbalance of external trade is concentrated) increased by CZK 4.2 billion and CZK 3.2 billion, respectively. The higher surplus of trade with the EU25 resulted predominantly from higher surplus of trade with Germany and Slovakia and from a turn of the deficit of trade with France into a surplus. Surplus of external trade with the Netherlands and the United Kingdom dropped. Among other states (outside the EU25), high deficit was run in trade with China, Japan, Russia and the United States.

A close look at the **commodity structure of external trade** shows higher exports and higher imports in all sections of the SITC after joining the EU. Dynamics of both exports and imports (except for 'chemicals and chemical products') in all sections of SITC was higher (albeit they varied from one section to another) after the accession to the EU than in the period before.

A positive feature was further strengthening of the role of **machinery and transport equipment** (SITC 7) in total exports due to an above-the-average increase of their exports. Higher exports by CZK 186.0 billion made up a 54.1% rise in total exports. On the other hand, imports of machinery and transport equipment recorded a markedly below-the-average growth and thus their position in total imports weakened. Surplus of external trade in machinery and transport equipment reached CZK 173.8 billion, which was up CZK 94.5 billion on the period before joining the EU; so it compensated for the worsening balance of trade in some sections of the SITC and at the same time affected surplus of the total balance of trade. Surplus grew particularly in road vehicles (CZK +25.3 billion) where a high increase in exports (+27.6%) was recorded as well as a higher position in total exports, which is the strongest among all sections of the SITC (15.3%). Surplus grew significantly in trade in 'general industrial machinery and equipment' (CZK +21.3 billion), 'telecommunications and sound-recording equipment' (CZK +9.3 billion) and 'office machines and automatic data-processing machines' (CZK +7.0 billion).

Below-the-average dynamics of exports and above-the-average dynamics of imports were reported for **manufactured goods classified chiefly by material** (SITC 6), which led to the weakening of their position in total exports and strengthening of their share in total imports. Yet the surplus moderately rose (from CZK 25.5 billion to CZK 30.8 billion), primarily due to a higher surplus of trade in 'manufactures of metal' (CZK +7.2 billion) and 'rubber manufactures' (CZK +2.3 billion).

The active balance of trade in **miscellaneous manufactured articles, commodities and transactions not classified elsewhere in the SITC** (SITC 8+9) dropped by CZK 5.2 billion, which was affected by below-the-average dynamics of exports under concurrent above-the-average growth rate of imports. Surplus was concentrated in trade in 'furniture and parts thereof' and 'prefabricated buildings', 'hygienic or pharmaceutical articles' and 'plumbing fixtures and fittings'. The balance of trade in 'articles of apparel and clothing accessories' and 'footwear' worsened (effected by the heavy competition from Asia in external markets).

Chemicals and related products (SITC 5) recorded the highest growth rate of exports and the lowest growth rate of imports from among all sections of the SITC. The deficit of trade in these products remained high also after the accession to the EU, although it dropped by CZK 9.1 billion. Surplus of trade in 'organic chemicals' was up (CZK +4.4 billion) and the deficit was down of trade in 'plastics in primary forms' and 'medicinal and pharmaceutical products' where still more than two-fifths of the total surplus of external trade in chemicals and related products are concentrated.

The highest dynamics of imports from among all sections of the SITC and slightly below-the-average growth rate of exports was observed for **crude materials, inedible, and mineral fuels** (SITC 2+3). This development, which was under the pressure of prices of 'mineral fuels' affected an increase in the passive balance in this section of SITC from CZK 65.8 billion to CZK 90.1 billion (of which petroleum and petroleum products from CZK 47.9 billion to CZK 72.4 billion). This deficit was thus one of the highest among all sections of the SITC.

Highly above-the-average dynamics of exports and slightly below-the-average growth rate of imports of **agricultural and food crude materials and products** (SITC 0+1+4) strengthened moderately the position of these materials and products in external trade. The deficit of trade in these materials and products rose inconsiderably and was concentrated mainly in fruit and vegetables (CZK 15.3 billion).