

Centrally planned system in Czechoslovakia and its transformation

Content

- 1. Czech economy
- 2. Political – economic development 1948-1990
- 3. Economic transformation
- 4. Czech-Chinese relationship

- 78 867 km² vs China 9 596 960 km²
- 10.6 mil vs 1.4 mld
- GDP per capita PPT \$43,200 vs \$16,800
- Life expectancy at birth 79 vs 76.70
- Gini 24 vs China 46.7
- EX/GDP 75 vs 18.5
- NATO 1999; the EU 2004

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Situation after WW2

- Political shift to left
 - Election 1946 – Communist party in Czech part of Czechoslovakia
- **Displacement of Germans**
- Politically and economically under influence of the USSR
- **Marshall plan**
- **February 1948 Communist coup**

Political development after 1948

- 1948- 53 very tough period
 - Political executions + concentrations camps + emigration
- 1953 Gottwald
- 1956 XX. Congress ... Chruscov
- 1960 constitution... socialism + leading role of the communist party
- 1968 Prague spring ... „Friendly armies“ ... „Enlightening of distress development ...contra revolution“, „normalization“, emigration ...
- dissident

Election attendance

	November 1954	June 1960	July 1964	November 1971	October 1976	June 1981	May 1986
National front ballot	97.89	99.86	99.9	99.96	99.39	-	-
House of people	-	-	-	-	-	99.81	99.97
House of nations	-	-	-	-	-	99.77	99.97

Economic development after 1948

A. nationalization

In Czechoslovakia liquidation even of small
trade + **collectivization**

+ **nivelization of wages**

... **motivation? vs. creating of „new better
people“**

Changes in the sectors of economy

	Socialist	Small trade	Capitalist
Till February 1948	50	25	25
After February 1948	61	25	14
1960	96	4	0

B. Centrally planned system + planning

**scientifically governing of economy X.
chaotic markets**

five year plans ... one-year plans

... „achieving of balance“?

lack of some goods vs. idle goods

C. Distortions

- Fixed prices disconnected to world prices
 - Several exchange rates ...
- Taxes individual for individual companies
- Monopolization + against competition
- + no bankruptcies + subventions
- Re-orientation of international trade
 - retreat from demanding western markets
 - decline of competition on domestic market
 - LR inflow of raw materials from the USSR
- Heavy industry + armament industries \Rightarrow neglecting of other sectors
 - 1980 ... I = 63% - S = 30% - A = 7%

Table 1.6: Retail prices of selected goods and services in Czechoslovakia, 1953–1988

Type of goods	Unit	1953	1960	1963	1965	1968	1970	1973
Bread	kg	2.8	2.6	2.6	2.6	2.6	2.6	2.6
Rice	kg	28.0	5.0	5.0	5.0	5.0	5.0	5.0
Potatoes	kg	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Butter	kg	44.0	38.0	38.0	38.0	40.0	40.0	40.0
Oil	kg	34.0	25.4	25.4	25.4	25.4	25.4	25.4
Cube sugar	kg	14.0	9.0	9.0	9.0	8.0	8.0	8.0
White wine	l	26.0	19.0	19.0	17.0	17.0	17.0	17.0
Rum (40%)	l	68.0	80.0	80.0	65.0	65.0	65.0	65.0
Pit coal	100 kg	22.4	22.4	22.4	22.4	26.2	26.3	26.2
Man's socks	pair	8.8	4.5	4.5	4.5	4.7	7.0	6.8
Rent (2 rooms)	month	75.0	75.0	75.0	106.0	106.0	106.0	106.0
Electricity	kWh	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Hair cut	service	2.0	2.0	2.0	2.5	3.1	5.1	5.0

Type of goods	Unit	1975	1978	1980	1982	1984	1987	1988
Bread	kg	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Rice	kg	5.0	5.0	5.0	10.0	10.0	10.0	10.0
Potatoes	kg	0.8	1.4	1.6	1.6	1.6	1.6	1.6
Butter	kg	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Oil	kg	25.4	25.4	25.4	25.4	25.4	25.4	25.4
Cube sugar	kg	8.0	8.0	8.0	8.0	8.0	8.0	8.0
White wine	l	17.0	17.0	24.0	28.0	24.0	28.0	28.0
Rum (40%)	l	65.0	65.0	83.0	100.0	100.0	100.0	100.0
Pit coal	100 kg	18.6	25.9	25.9	25.9	25.9	25.9	25.9
Man's socks	pair	6.7	11.7	12.8	13.7	14.4	14.0	14.0
Rent (2 rooms)	month	106.0	121.0	121.0	121.0	121.0	121.0	121.0
Electricity	kWh	0.7	0.7	1.1	1.1	1.1	1.1	1.1
Hair cut	service	5.0	5.0	5.0	5.0	7.0	7.0	7.0

Negative turnover tax

Branch code	Branch	Lowest rate %	Highest rate %
0	agriculture, forestry	-240	66
I	fuels, coal, oil	-189	76
II	heat, electricity	-181	0
III	iron and steel	-33	25
IV	nonferrous metals	-27	33
V	chemicals, rubber, asbestos	-216	71
VI	engineering and hardware products	-291	83
VII	construction material	-171	20
VIII	wooden products	-75	46
IX	paper	-80	52
X	glass, china, ceramics	-69	69
XI	textile	-137	70
XII	clothes	-44	79
XIII	leather, shoes	-222	52
XIV	printing industry and culture	-111	76
XV	food	-224	88
XVI	other industrial products	-100	62
XVII	construction industry	0	0
	combined	-291	88

Teritorial structure of trade

Year	ME	CPE
1948	60.3	39.7
1950	44.4	55.6
1960	28.2	71.8

Consequences

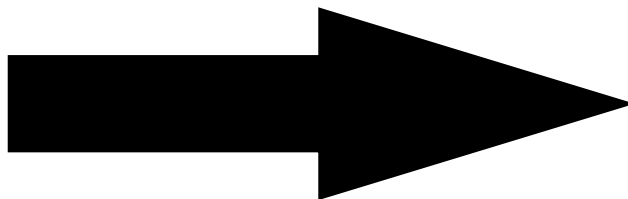
- Lack of basic stuff
- Non-efficiency
- Lack of motivation and research
- Low quality good / impossible to compete on world markets

Evaluation „positives“

- „security“, $U=0$, very low level of inequality
- macro stability x other CPE countries
 - Low inflation, ...
- Relatively developed country (+/-)
- Relatively qualified LF
- geography

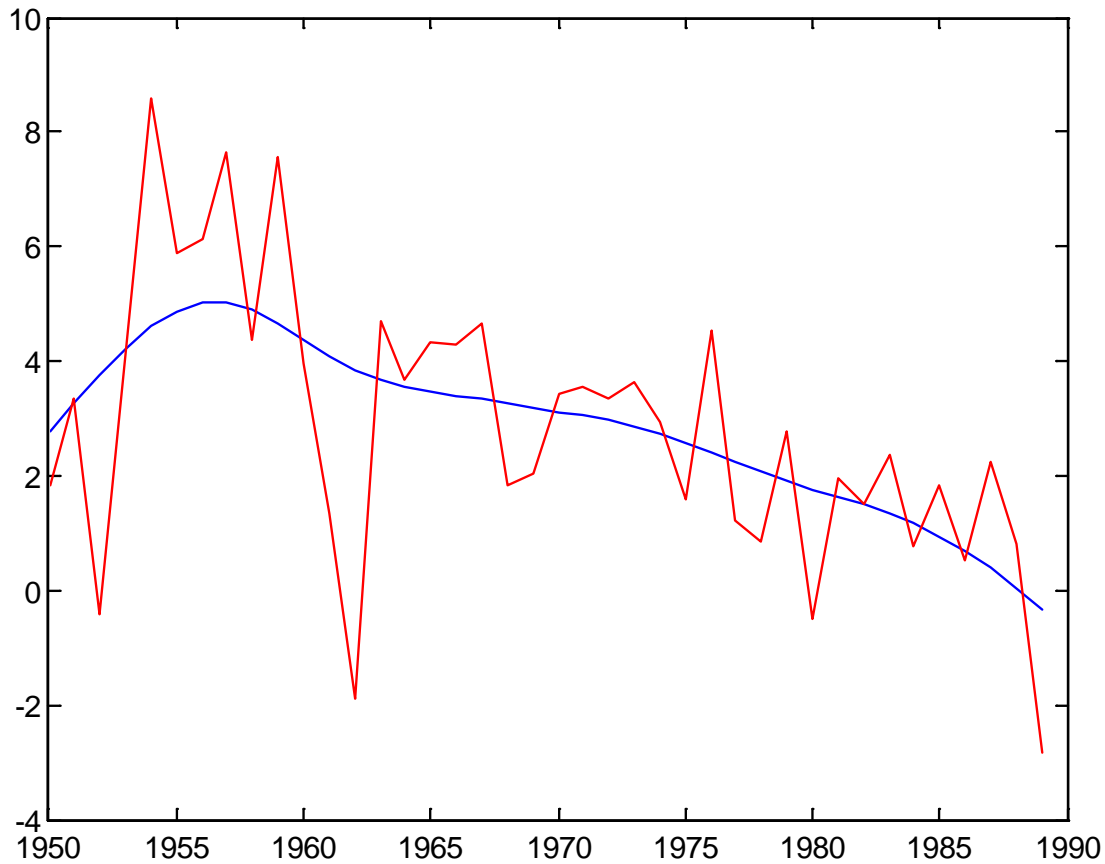
Evaluation

- **Political collapse partially due to economic reasons:**
 - Declining economic growth
 - Sources of extensive growth...ecology
 - **Directive central planning**
 - Without private initiative and competition
 - distortions
 - Non-functioning price mechanism + ...

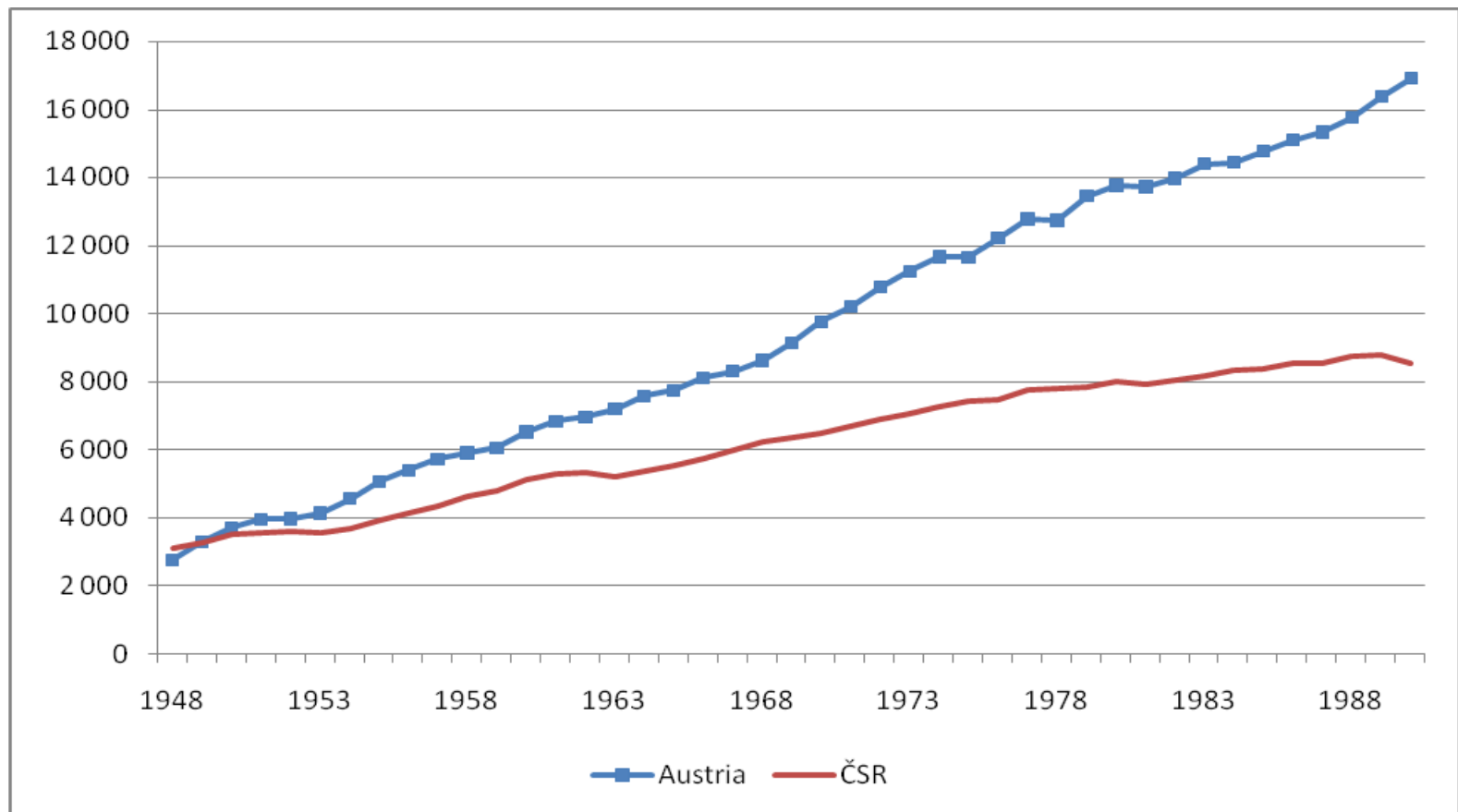


**Lag behind
developed world**

Economic growth in Czechoslovakia



GDP per person vs Austria 1950-1989



Evaluation institutional aspects

- Institutions formal and informal
 - Legal system + how the society works
- Moral state of the society
 - Life in lie, corruption ...
 - Supressed freedoms
 - State take care from cradle to grave
- isolation ... lack of knowledge
 - Among others about functioning of the market economy
 - marketing, management, audit, foreign trade ...
 - Among others democracy ...
- Tasks for long period

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A. Political development

- political changes in November 1989
- Václav Havel president since December 1989
(with breaks till 2002)

- 1st free elections - middle 1990
- Václav Klaus as the central-right leader
- common state – Czechoslovakia till 1992
- unstable governments after 1996
- centre-right till 1997, centre left consequently
- 1999 NATO
- democracy

B. Transformation development

- 1990
 - private enterprise allowed \Rightarrow people could start their own business
 - end of food price subventions
 - devaluation + fix exchange rate
 - difficult decision
 - crown undervalued X real appreciation
 - restitutions – re-privatization

1991

- „shock therapy“
- the real transformation started 1st of January
- all crucial steps happened on that day
 - price liberalization
 - opening to international trade
 - internal convertibility
 - why? – fix exchange rate
 - restrictive fiscal and monetary policies
- difficult to estimate the following development

Other measures

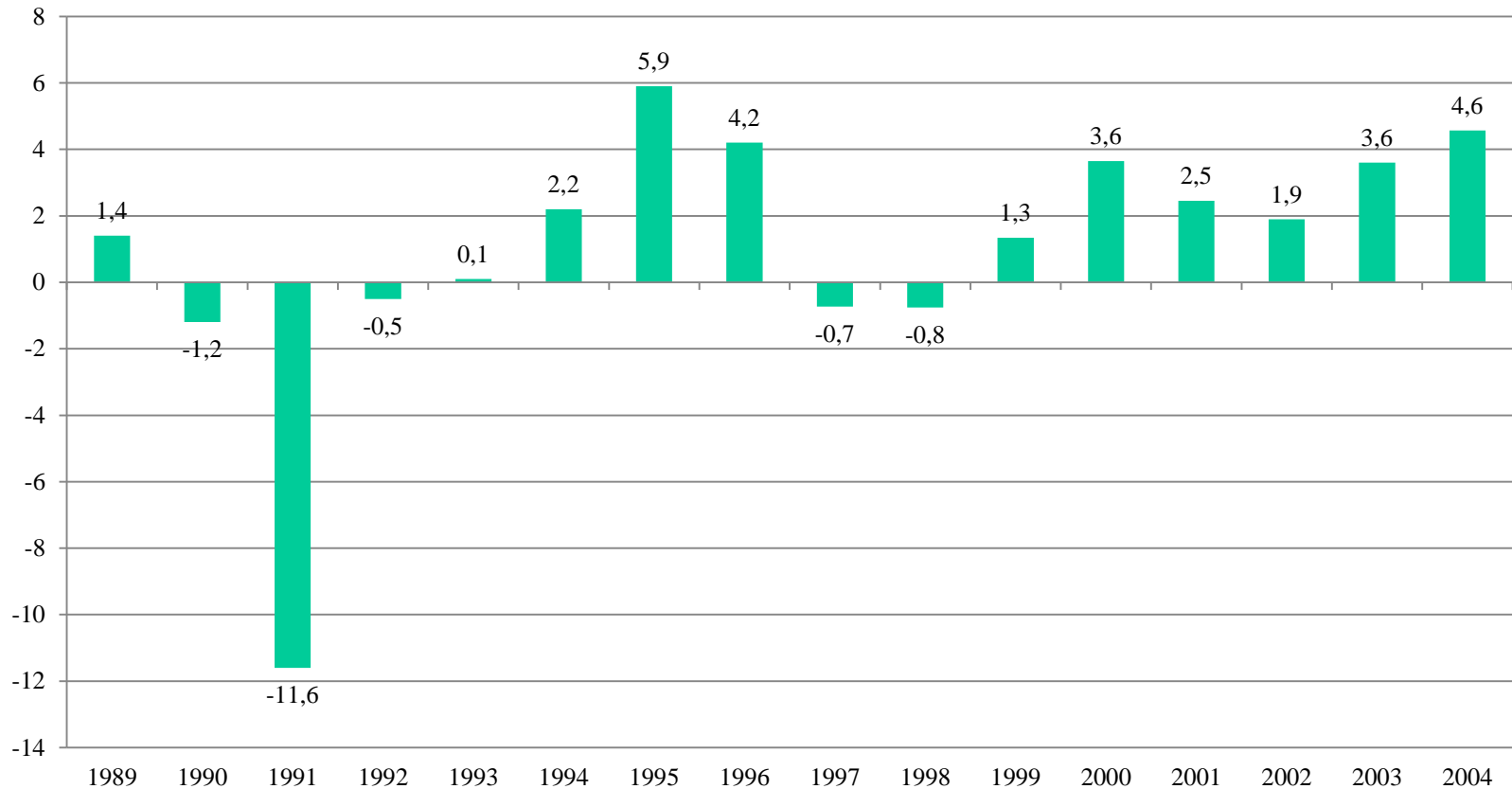
- January – start of „small privatisation“
 - auctions of shops, restaurants, small companies – mostly in services
- building social safety net
 - one of the reasons for support of the process among inhabitants
- unified taxes – to four rates!
- wage regulations

- dismantling of the COMECON and other factors in the international trade with the East
 - strong impact on the countries
- Mass privatization
- X association agreement with then European Community

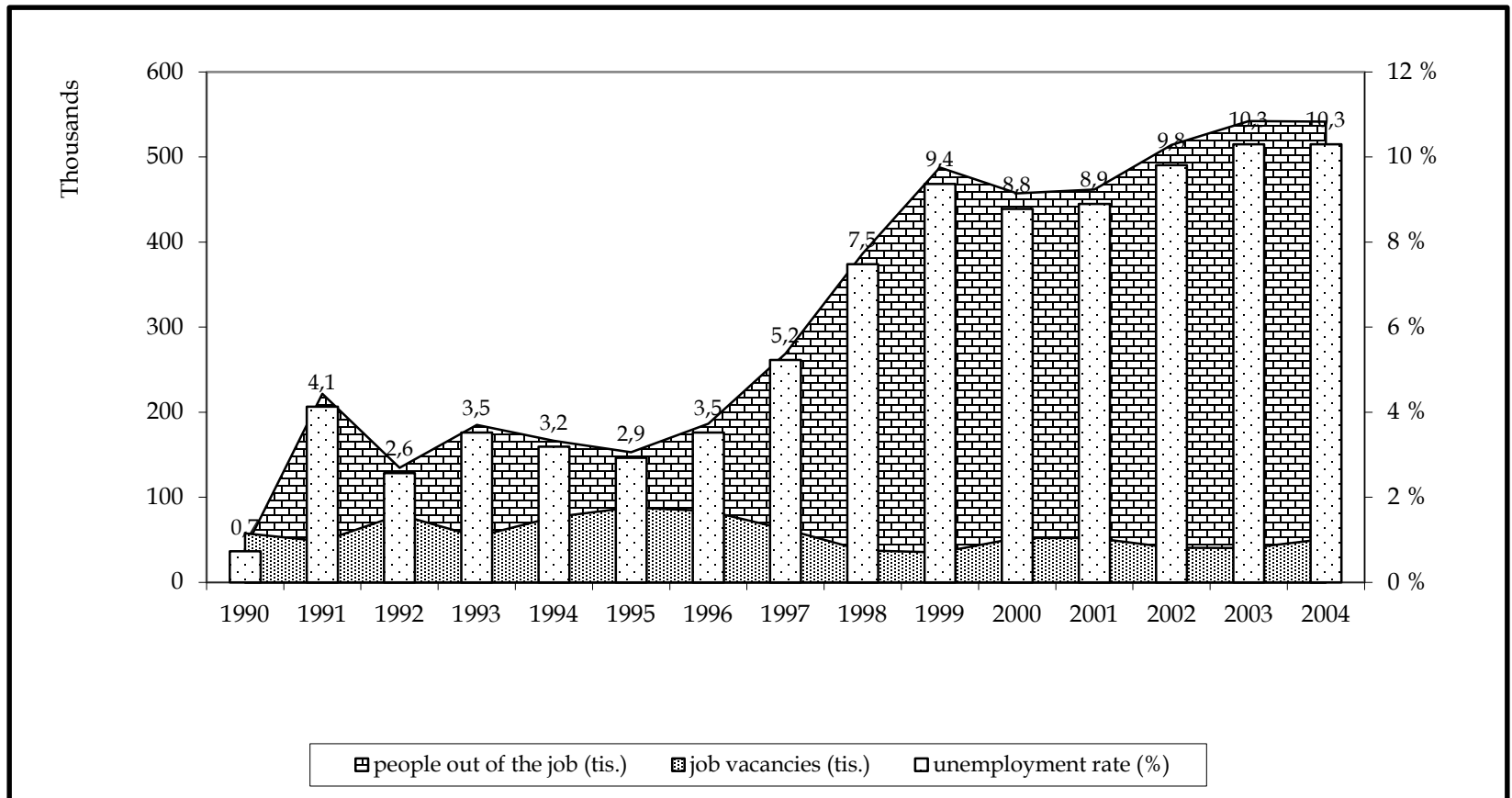
1993

- 1.1. splitting of the country
 - single currencies after a few weeks
 - custom union – no tariffs between the countries
- tax reform – introducing VAT
 - government tasks – declining taxes and the amount of public finance
- end of small privatisation and second wave of the mass (voucher privatisation)
 - establishing of the Prague stock exchange

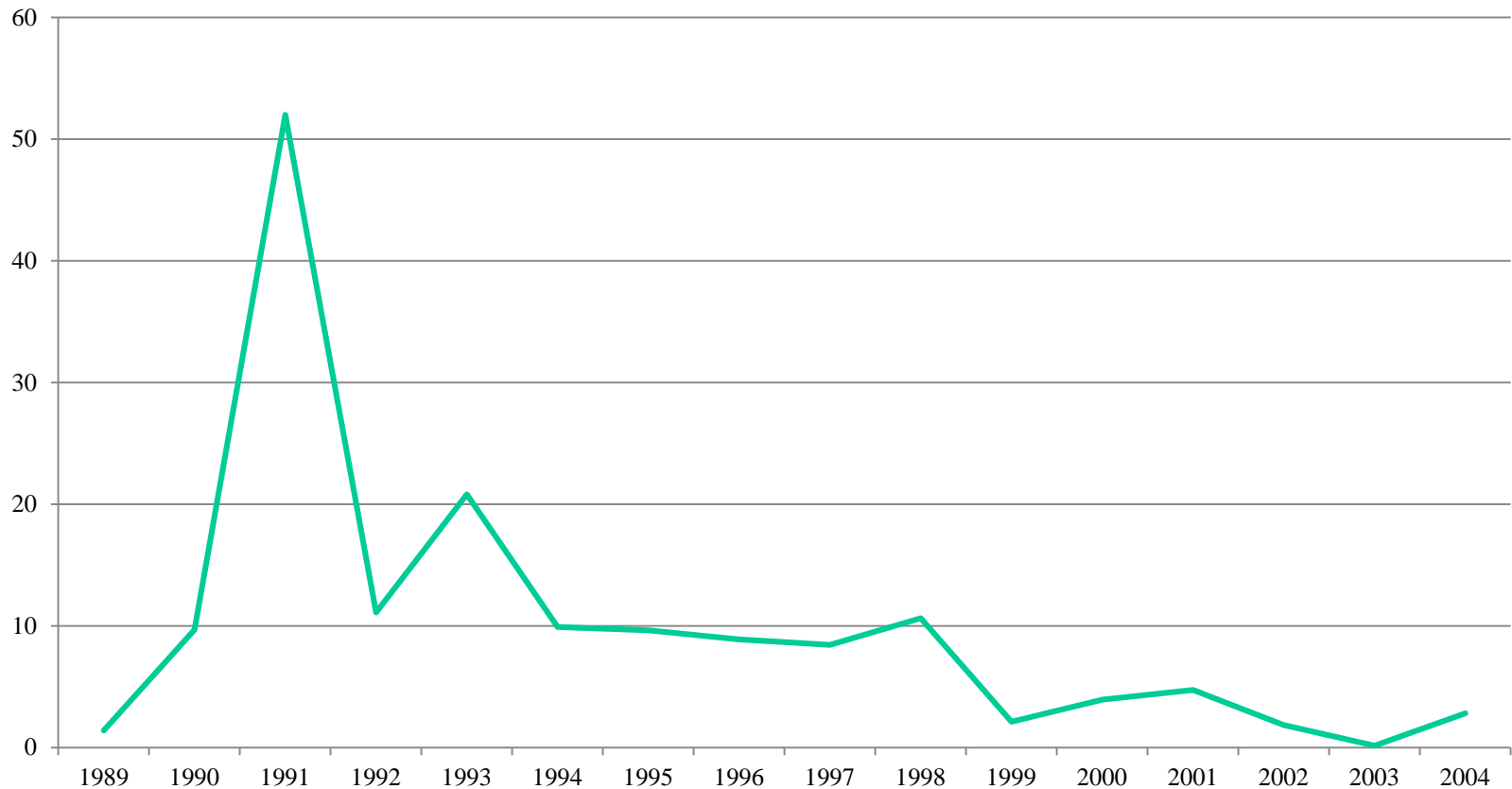
Real changes of GDP between 1990 and 2004 (in %)



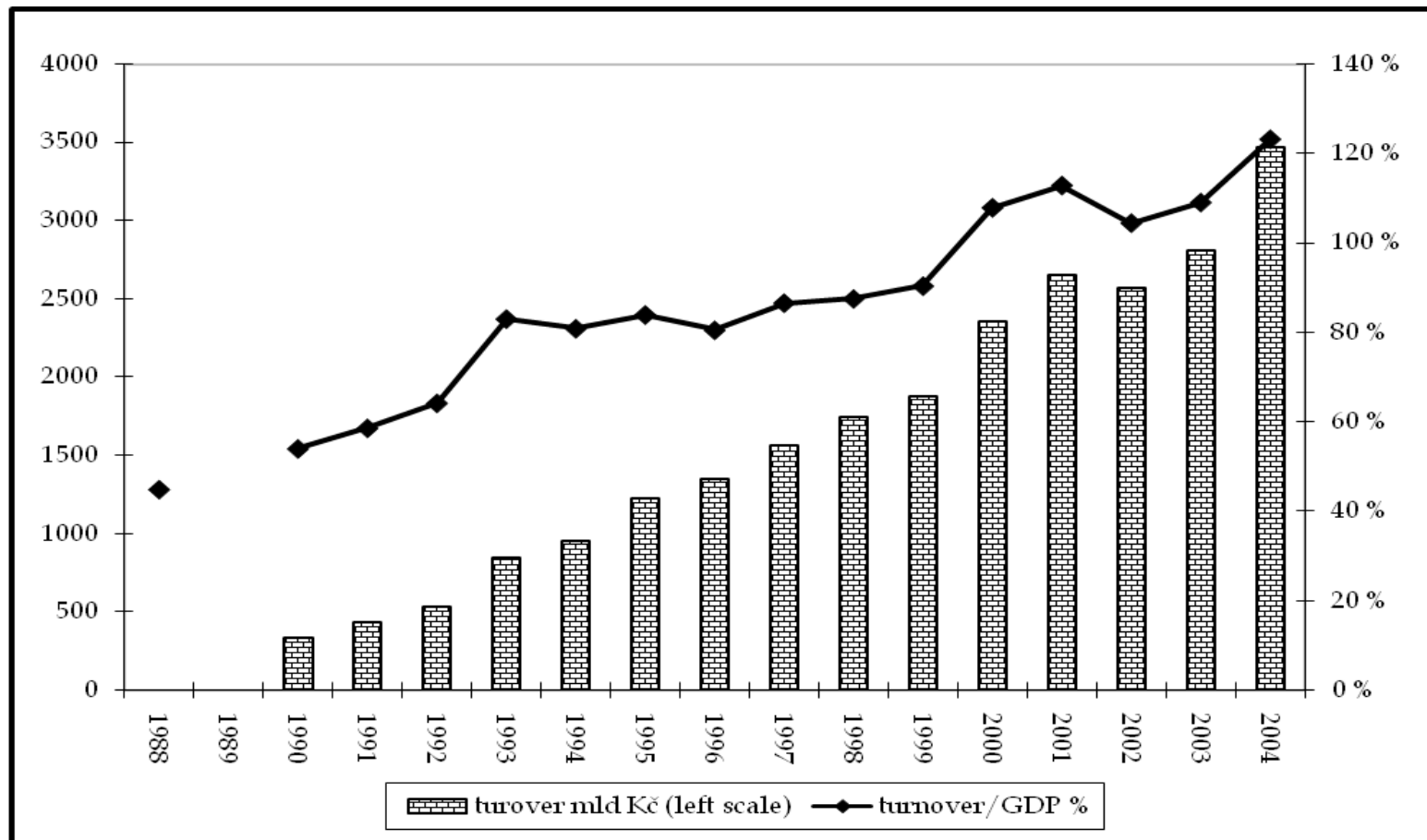
Labor market in years 1990–2004 (as of December, 31)



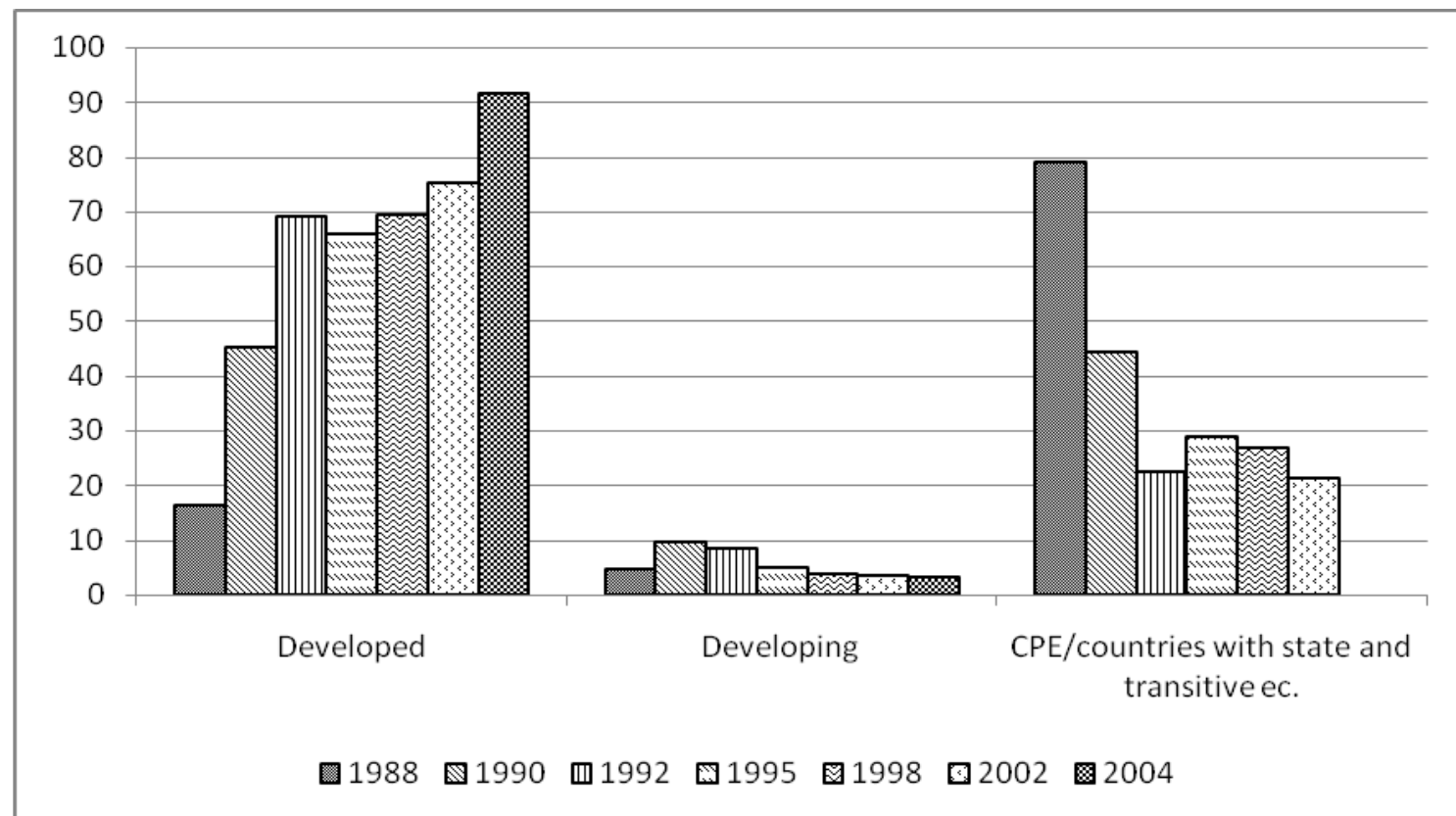
Inflation rate – annual increase of average consumer price index in the CR (previous year = 100)



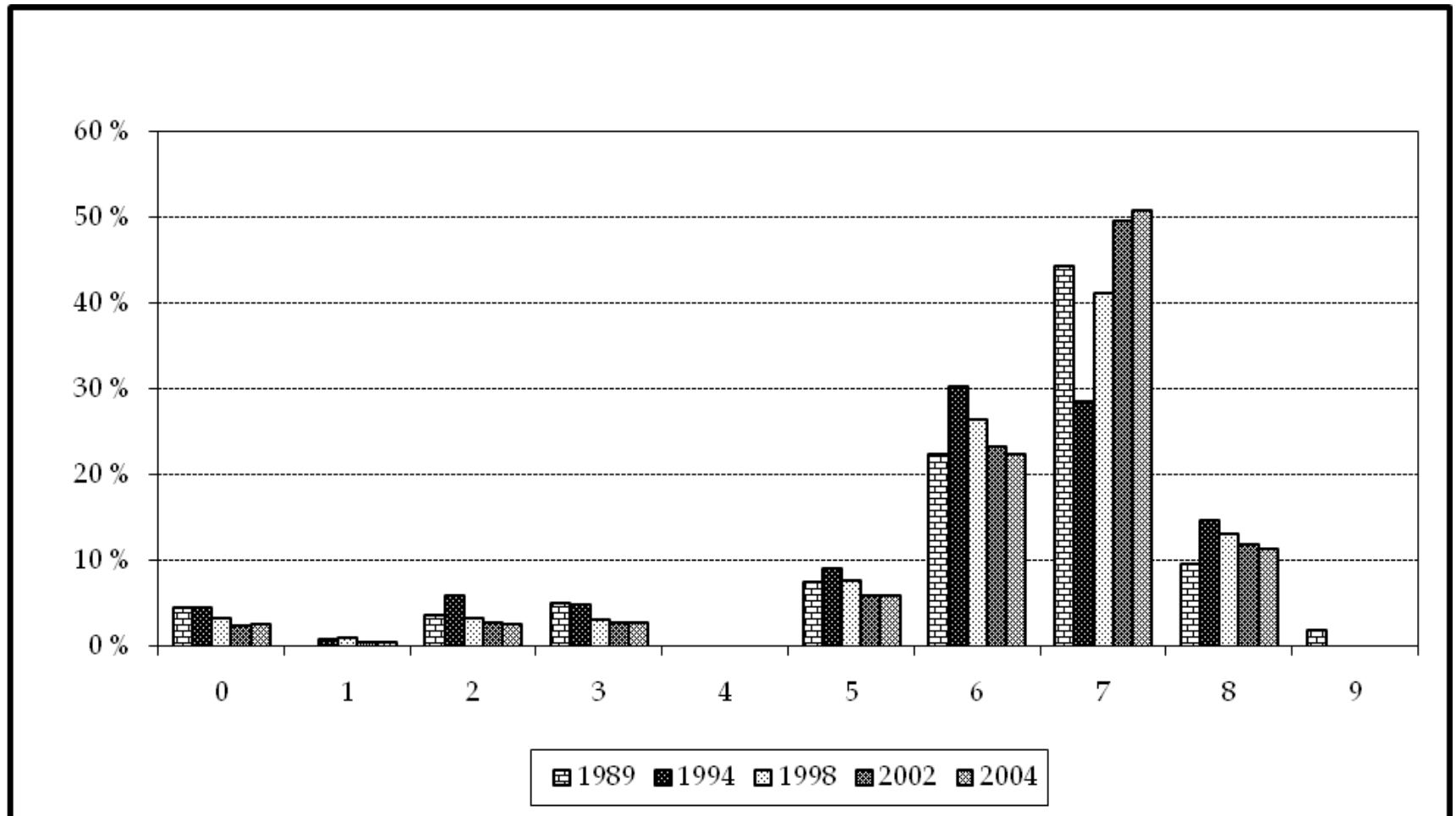
Czech foreign trade turnover (in million CZK, as GDP %) 1989-2004



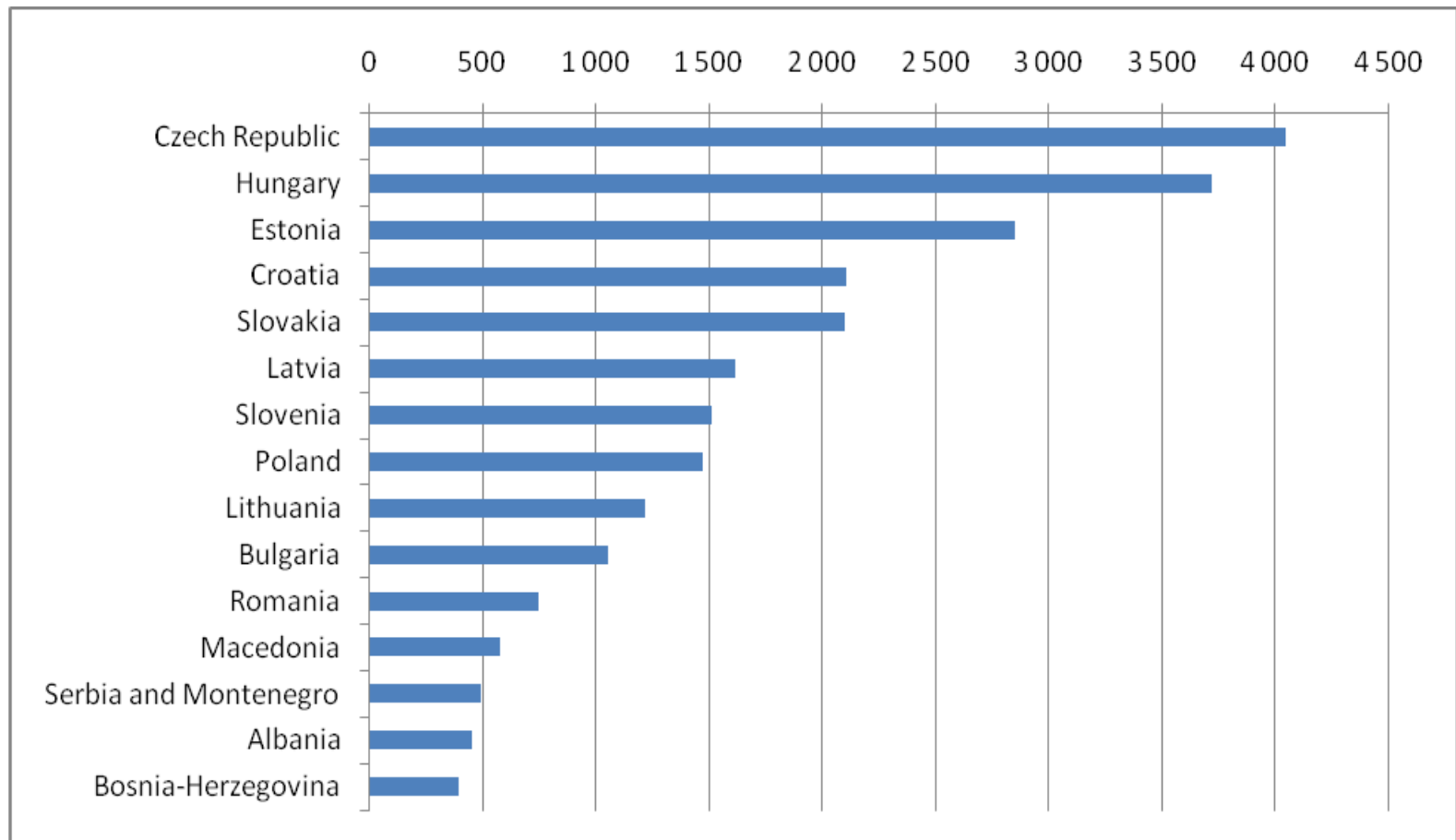
Territorial structure of exports from the CR in 1988–2004 in %



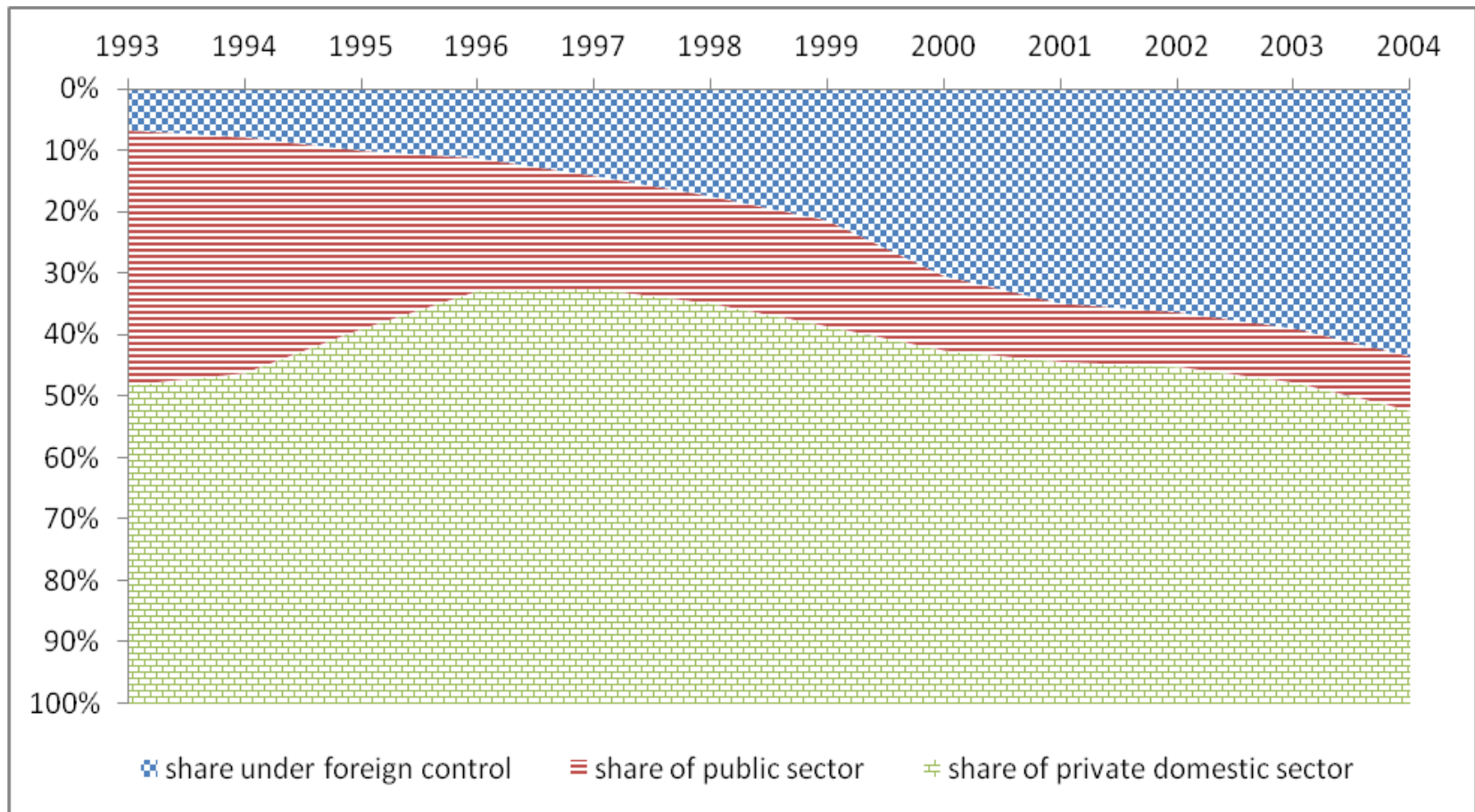
Commodity structure of Czech exports – percentage of individual groups according to SITC between 1989 and 2004



Cumulative FDI inflows per capita 1989-2004 in dollars



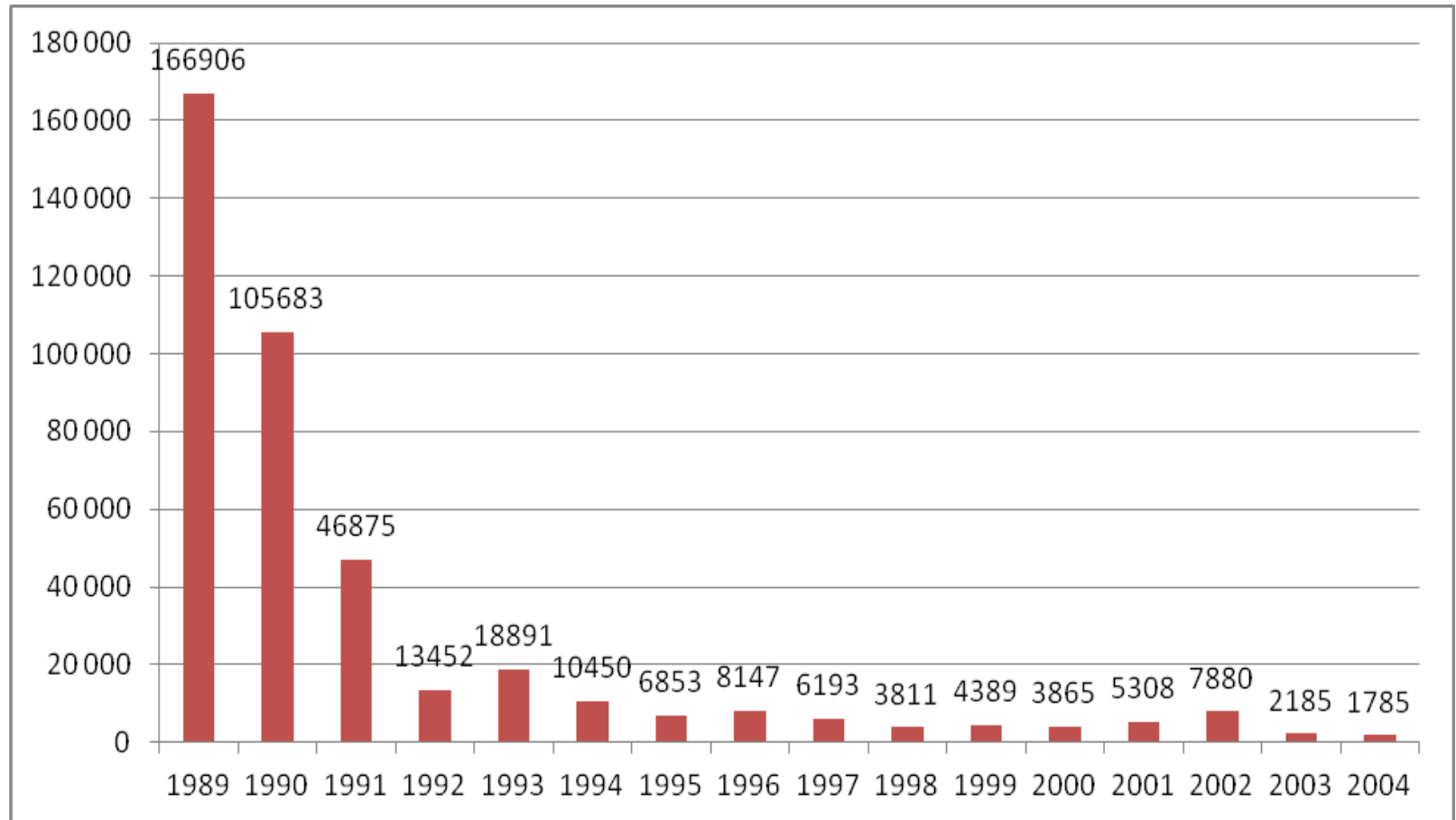
Shares of domestic and foreign companies in the Czech non-financial production between 1993 and 2004



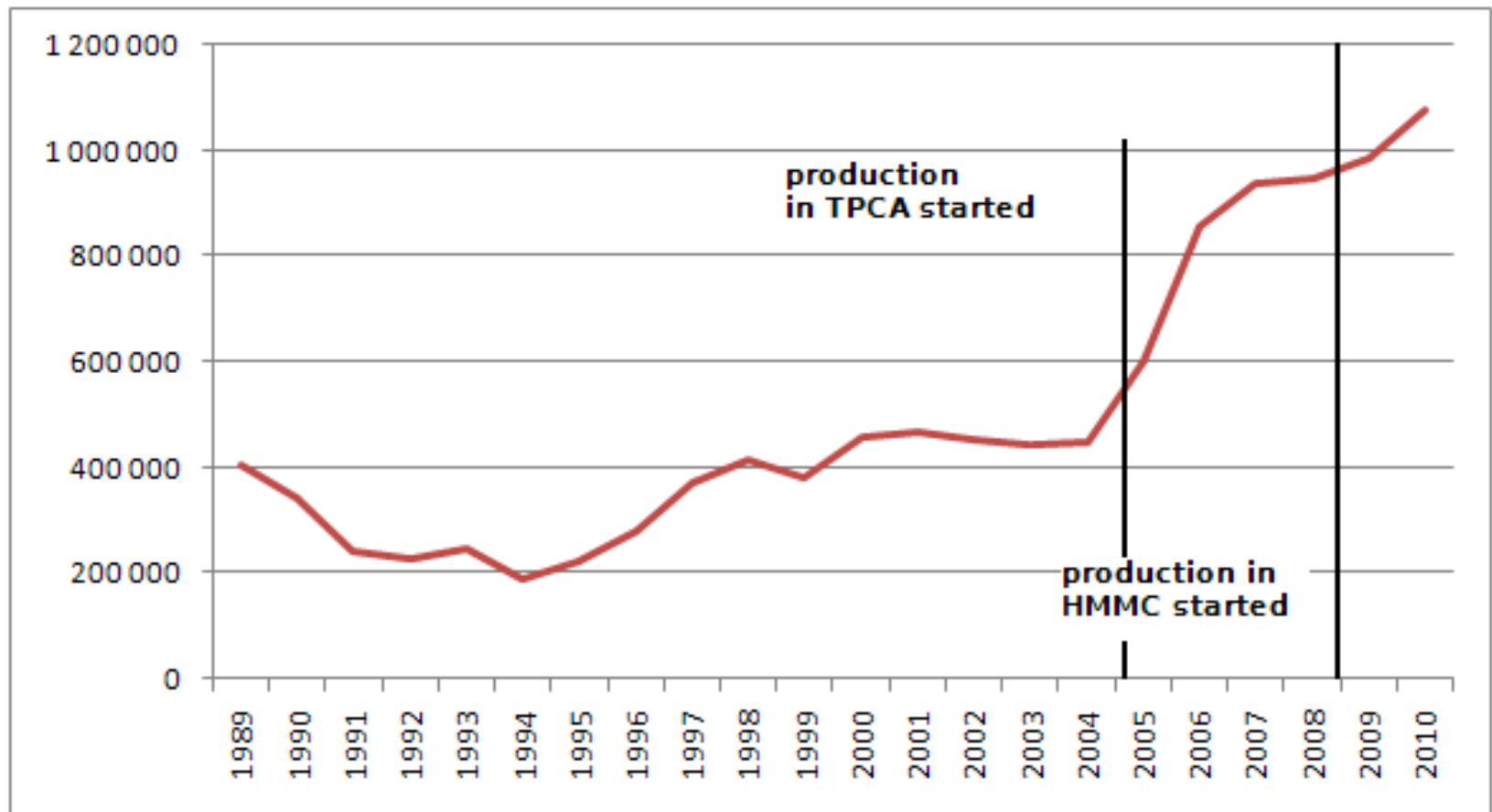
Shoe industry in the Czech Republic

	1989	1996	1999	2001	2003
Production of shoes (in million pairs)	73,1	25,7	13,5	12,5	7,0
Import of shoes (in million pairs)	10,9	23,8	30,0	35,9	44,5
Number employees in the shoe industry (in thousand)	36	23	10,5	9,5	7,8

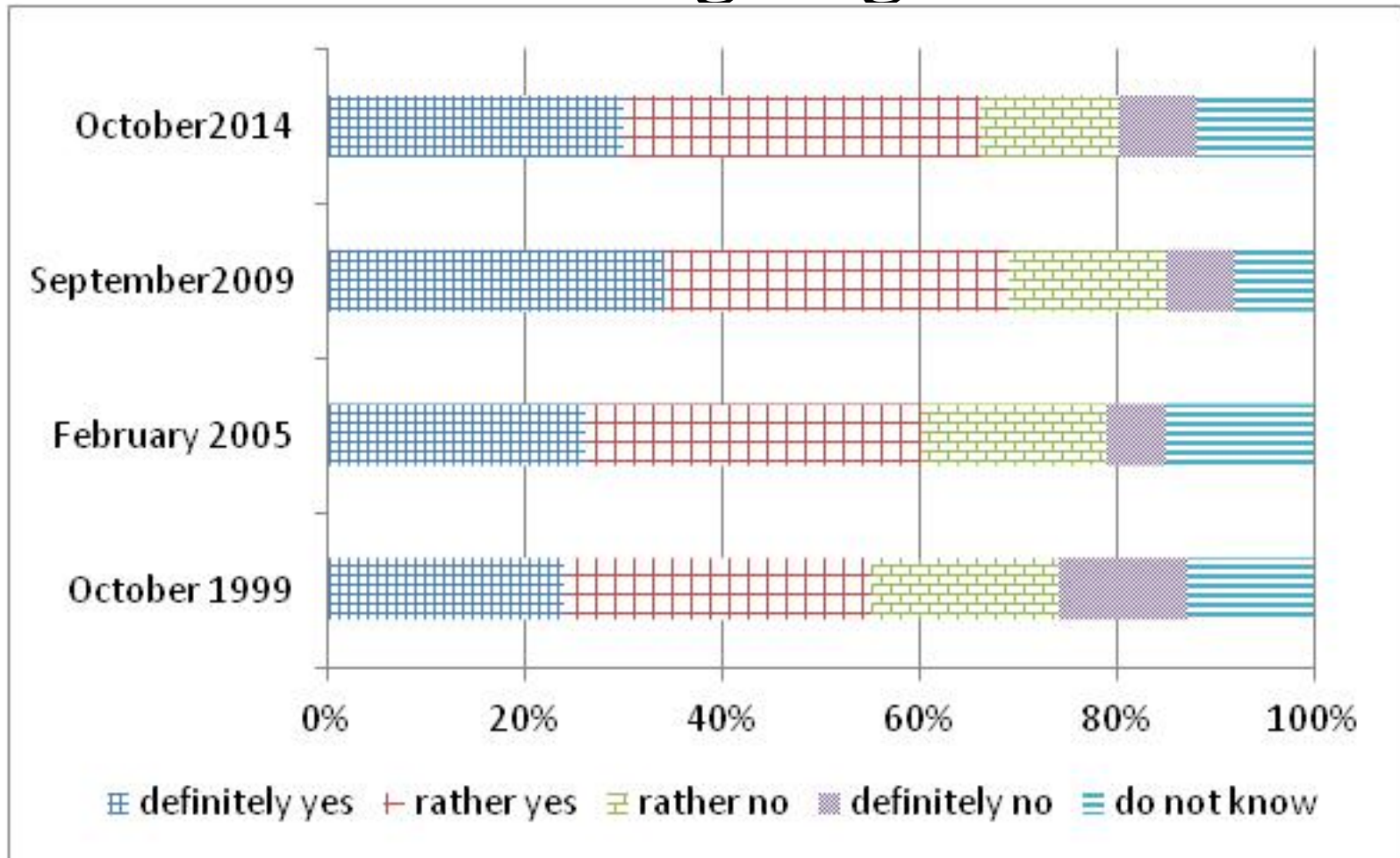
Production of motorcycles in the Czech Republic 1989 – 2004



Production of cars in the CR between 1989 and 2010



Was the change in 1989 worth undergoing?



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Czech exports
to China (USD
thous. + share
of total)

	USD (thousands)	(%)
1999	58 435	0,0
2000	65 944	0,0
2001	80 554	0,0
2002	151 063	0,0
2003	243 341	0,0
2004	271 635	0,0
2005	298 487	0,0
2006	400 770	0,0
2007	698 724	0,0
2008	777 518	0,0
2009	843 886	0,0
2010	1 215 560	0,0
2011	1 668 645	0,1
2012	1 674 741	0,1
2013	1 920 449	0,1
2014	2 042 881	0,1
2015	1 852 871	0,1
2016	1 916 217	0,1
2017	2 414 363	0,1
2018	2 584 292	0,1
2019	2 471 122	0,1
2020	2 607 436	0,1

China's imports
into the Czech
Republic (USD
thous. + share of
total)

	USD (thousands)	(%)
1999	563 464	0,0
2000	690 575	0,0
2001	1 073 259	0,0
2002	1 896 405	0,1
2003	2 681 348	0,1
2004	3 547 233	0,1
2005	3 912 167	0,2
2006	5 711 359	0,2
2007	9 252 271	0,4
2008	12 447 064	0,5
2009	10 591 490	0,4
2010	15 554 218	0,6
2011	18 918 779	0,8
2012	15 685 145	0,6
2013	15 498 328	0,6
2014	17 438 913	0,7
2015	19 019 012	0,8
2016	17 664 736	0,7
2017	20 510 131	0,8
2018	26 052 359	1,0
2019	28 338 215	1,1

The state of the Czech FDI abroad in 2019 (mil. USD)

World	45 134,0
Europe	43 113,0
USA	717
China	410
India	71



Škoda auto

- 4 factories
- > 3 millions produced cars
- 2019 China market 282 thousand out of 1.2 million production
- 2020 decline

Home Credit

- financial institution
- loans
- part of PPF holding
 - Petr Kellner
- 2020 problems – decline



The state of the FDI in the Czech Republic in 2019 (mil. USD)

World	171 333,0
Europe	161 084,0
Korea	3770
Japan	2142
USA	1727
China	705