Never Too Late to Get Together Again: Turning the Czech and Slovak Customs Union into a Stepping Stone to EU Integration

by

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Abstract: The Czech and Slovak Customs Union (CSCU), which came into effect in January 1993, differs from regular regional trading arrangements as its goal was to minimize the economic cost of a decline in economic ties between its members rather than to set in motion the mechanism of integration. The creation of the CSCU ensured a smooth and conflict-free break up of Czechoslovakia and resulted in divergence in regulatory regimes of the two republics. This study argues that the process of mutual adjustment triggered by the emergence of national borders is over and that integration within the CSCU similar in depth and scope to that existing within the EU would be a desirable policy objective. By deepening integration, both the Czech Republic and Slovakia would be better prepared to handle challenges associated with the EU accession. Such a regulatory realignment would also lower border costs and behind-the-border barriers to trade and result in a more attractive investment environment in both countries.

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1. Introduction

The Czech and Slovak Customs Union (CSCU), which came into effect in January 1993, differed from most regional trading arrangements observed in other parts of the world in one important respect. Its goal was to minimize the economic cost of unavoidable decline in mutual economic ties between its members rather than to set in motion the mechanism of integration. The creation of the CSCU was part of a broader package of agreements and arrangements to ensure a smooth and conflict-free break up of Czechoslovakia. As we will argue in this paper, this objective has been largely attained. Moreover, different political dynamics and the pace of structural reforms have provided further impetus to divergence in regulatory regimes, albeit significantly weakened by the shared objective of aligning with the *acquis communautaire*—the necessary condition for membership in the EU.

Although the EU began accession negotiations with Slovakia later than with the Czech Republic, Slovakia appears to have caught up in terms of progress made in negotiations, but not in compliance. Two measures indicate the progress achieved so far in preparations for full membership—the number of "negotiation chapters" closed and envisaged transitional periods. On both counts, Slovakia seems to be on a par with the Czech Republic. Both countries continue negotiating the same two chapters—agriculture (chapter 7) and financial and budgetary provisions (chapter 29). Slovakia closed the remaining 28, as did the Czech Republic, albeit two chapters may yet to be reopen (chapter 30 on institutions and chapter 9 on transport). Country assessments of the compliance with the *acquis* suggest, however, that the Czech Republic is more advanced of the two countries (EU 2002b and c).

Issues that will be subject to transitional periods, because either a candidate country or the EU is not ready to assume all obligations, are also roughly similar. More importantly, they are unlikely to constitute a barrier to the establishment of a single market within the CSCU. Temporary restraints on one of four freedoms have been requested by the EU (a transitional period of up to five years for freedom of movement of persons) and they are similar for both the Czech Republic and Slovakia. It is also interesting to note that both countries requested transitional periods for implementing common VAT and excise tax rates in the same domains.[1]

This study shall conclude that the accession to the EU provides strong arguments in favor of reversing the process of disintegration and proceeding with 'deepening' of the ties within the CSCU and turning it into a stepping stone for integration into the EU. Such a 'deepening' would be particularly beneficial to the Slovak Republic, from whose perspective the study examines this question.

This paper is structured as follows. The next section contains a brief discussion of historical background and the response of Slovak trade first to the dissolution of the Council of Mutual Economic Assistance and then to the dissolution of Czechoslovakia. Section 2 examines in details developments in the volume, composition and factor content of trade between the Slovak and Czech Republics. Section 3 focuses on policies pursued within the customs union and argues that a deeper coordination within the CSCU would aid Slovakia's integration into the EU. The final section concludes.

[1] These include reduced VAT rates on heating and construction (Slovakia's request also includes electricity and gas), VAT turnover threshold for SMEs, lower excise duty rates on cigarettes, and special excise regime for fruit growers' distillation for personal consumption (EC 2002a)

1.1 Historical Background

Czechoslovakia began its journey back to capitalism following the 1989 velvet revolution with a mixed bag of initial conditions in terms of assets and liabilities. Domestic balances and very low international indebtedness were clearly assets. So was political determination to break decisively with central planning. This assured strong support to move swiftly to a new economic regime. After a yearlong preparatory work, the authorities launched a radical stabilization-cum-transformation program on 1 January 1991. Its major components included a sharp reduction in direct subsidies, an overhaul of the tax system, and the liberalization of prices, foreign trade and exchange rate regimes.

Czechoslovakia had one of the least reformed systems of central planning among Council of Mutual Economic Assistance (CMEA) members in 1989 (Kaminski 1994). The scope of central controls over economy was vast. In contrast to Hungary or Poland, where a significant shift of economic decision-making responsibility to enterprises prior to the collapse of central planning had produced cadres of managers better equipped to cope with challenges of moving to a demand-constrained economy, Czechoslovak enterprise managers were ill-prepared to new tasks. They had little, if any, direct contacts with Western clients, and were used to execute orders rather than autonomously seek solutions. Slovakia seemed to be particularly poorly prepared, as throughout the 1970's there were significant investments in Slovakia in heavy, energy- and capital-intensive industries with little prospects for survival once cross subsidies, including cheap energy, were removed.

Yet, assets seemed to have prevailed over liabilities. Despite the separation and changes in the original mix of structural reform measures adopted by the then Czechoslovak federal government, the Slovak economy rebounded strongly the third year into the transition (1993). Its stabilization-growth pattern did not diverge from the performance of other successful reformers among Central European Economies (CEECs[2]) in the early 1990s. Like in other transition economies, inflation had initially followed an inverted-U shape. Exports facilitated by geographical proximity and liberalized access to EU markets had driven economic recovery. Unexpectedly, the split of Czechoslovakia into the Czech Republic and Slovakia, which went into effect on 1 January 1993, coincided with the beginning of economic recovery.

1.2 Trade Reorientation

In contrast to other Central European economies, two shocks, i.e., those of the dissolution of both the CMEA and Czechoslovakia have shaped Slovak trade performance. Both seem to have contributed to Slovak surge in exports to third markets, mainly the EU, and to dramatic reorientation of its imports.

The dismantling of central planning has brought about a massive shift in trade away from the former CMEA. Due to the contraction in former CMEA import demand and the gradual shift to convertible currencies in their trade transactions in the late 1980s and in the 1990-91 period, Czechoslovak exporters had already been losing preferential access to these markets. This put an end to the dual environment for the Czechoslovak trade activity: one subject to market forces and another nurtured by preferential intra-CMEA arrangements providing an undemanding outlet for Czechoslovak manufactures.

As it turned out, a considerable proportion of these manufactures, considered "soft" products unmarketable in the West, was successfully redirected to new markets. Between 1989 and 1991 the value of Czechoslovak exports to the European Union increased by 60 percent,

[2] CEECs include Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

while exports to CMEA economies fell by around 53 percent over the same period. The export share of the former CMEA fell from 45 to 20 percent. A considerable portion of these exports was shifted from the CMEA to markets in highly developed economies—the EU in general and Germany in particular. The share of the EU almost doubled increasing from 26 to 46 percent over this period (World Bank 1999). By 1991 the EU replaced the CMEA, and Germany replaced the former Soviet Union as Czechoslovakia's major trading partners.

Although due to the lack of disaggregated data before the split, it is impossible to attribute this performance to respective republics, it seems that Slovakia's pattern did not diverge significantly from that observed prior to the dissolution of Czechoslovakia. Its export performance was strong and driven by reorientation towards the EU especially sharp in the early 1990s. The value of total exports increased from US$ 3.5 billion in 1992 to US$ 11.9 billion in 2001, growing on average 17 percent per year. Imports in terms of value grew at roughly the same average rate of 18 percent per year—they fell 15 percent in 1999, but subsequently strongly rebounded in 2000 and 2001 (Table 1).

Table 1: Dynamics of Slovak Exports and Imports over 1993-2001 (annual changes in %)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total exports	56%	23%	28%	3%	9%	11%	-6%	18%	7%
Total imports	63%	4%	33%	25%	7%	11%	-15%	15%	16%
Exports to the EU	n.a.	42%	37%	14%	25%	32%	0%	18%	
Imports from the EU	n.a.	19%	38%	32%	27%	28%	-12%	9%	

Source: Based on Slovakia' data as reported to the UN COMTRADE database and *Survey of Europe 2002,* UN Economic Commission for Europe, New York and Geneva, 2002 for the estimates of values of total exports and imports in 1992 and 2001.

Trade with the EU has shaped Slovak geographical pattern of trade. EU-oriented exports grew faster than total exports through 1993-99. Except in 1999, the rates of growth were in a double-digit range. In consequence, the share of the EU increased from 35 percent to 59 percent between 1994 and 2000 (Table 2). The increase on the import side was smaller but also quite significant from 33 to 49 percent over the same period of time. Slovakia's geographical trade pattern has three other features setting it apart from other CEECs. First, its exports to CEECs, excluding the Czech Republic, expanded with the share growing from 10 percent in 1994 to 13 percent in 2000, while the share of CEECs-oriented exports in total exports of other CEECs has remained at single-digit levels. Imports, however, remained stagnant, i.e., grew in line with the growth in total imports.

Second, trade with its customs union partner, the Czech Republic dramatically contracted suggesting that the 1993 dissolution of the Czech and Slovak Federation amounted to a severe shock. It seems, however, that both imports and exports have already bottomed out. Third, still intense trade with the Czech Republic explains why its share of trade with the EU (around 55%) remains about 10 percentage points lower than that of "Luxembourg" group (around two-thirds).[3]

[3] The countries that made the fastest progress in transition—the Czech Republic, Estonia, Hungary, Poland and Slovenia—were already invited in July 1997 to begin accession negotiations (these started in March 1998), whereas "late" or slower reformers—Bulgaria, Latvia, Lithuania, Romania and the Slovak Republic—joined the former in December 1999. This first—also including Cyprus—is often called the "Luxembourg Group," whereas the second is often referred to as the "Helsinki Group." The latter also includes Malta.

Table 2: Geographic Distribution of Slovak Foreign Trade, 1994-2000

Country	1994	1995	1996	1997	1998	1999	2000
	Export Value ($ million)						
European Union	2,343	3,208	3,645	4,539	5,970	5,977	7,024
CEEC-10 (excl. Czech R.)	662	956	1,033	1,174	1,349	1,205	1,566
Czech Rep.	2,502	3,024	2,738	2,455	2,179	1,820	2,068
TOTAL	6,690	8,577	8,824	9,634	10,718	10,057	11,885
	Export Share (in %)						
European Union	35	37	41	47	56	59	59
CEEC-10 (excl. Czech R.)	10	11	12	12	13	12	13
Czech Rep.	37	35	31	25	20	18	17
Other	18	16	16	15	11	10	10
	Import Value ($ million)						
European Union	2,213	3,049	4,030	5,136	6,553	5,753	6,245
CEEC-10 (excl. Czech R.)	321	511	573	629	757	677	784
Czech Rep.	1,958	2,434	2,682	2,503	2,402	1,857	1,880
TOTAL	6,611	8,770	10,936	11,727	13,071	11,131	12,774
	Import Share (in %)						
European Union	33	35	37	44	50	52	49
CEEC-10 (excl. Czech R.)	5	6	5	5	6	6	6
Czech Rep.	30	28	25	21	18	17	15
Other	32	32	33	29	26	26	30

Source: Based on Slovakia as a reporter from UN COMTRADE Statistics.

Overall, Slovak trade remains geographically highly concentrated with the EU together with accession countries and EFTA absorbing around 90 percent of Slovak exports and providing almost three-quarters of Slovak imports. Hence, the scope of change was rather dramatic but mainly boiling down to the expansion in trade with the EU and contraction in trade with the other part of what used to be Czechoslovakia.

2. Features of Czech-Slovak Trade following the Velvet Divorce: Has the contraction in mutual trade bottomed out?

Economic considerations alone would suggest a lowering of the mutual trade after the dissolution of Czechoslovakia. Trade that used to flow within a single state would be pulled towards richer neighboring economies—Austria and Germany—once the state border was erected regardless of the customs union or even the monetary union.[4] Moreover, this trade would be much more important to Slovakia than the Czech Republic, simply because the latter is larger and more developed. Therefore, one would expect that trade between the two countries would be falling after the split, as it would gradually reflect economic realities underpinning this exchange. Furthermore, the transition to from supply- to demand-constrained with cross-subsidies artificially sustaining otherwise not competitive firms would further depress output, as was the case throughout former centrally planned economies during the initial stages of transition. Hence, in addition to the emergence of economic borders, industrial realignment triggered by the collapse of central planning was bound to play an important role.

[4] The monetary union between the Czech Republic and Slovakia was short-lived extending over a period of less than three months.

2.1. Contraction in Trade: its current significance

Subsequent developments have confirmed the expectations of a precipitous decline and change in Slovak foreign trade patterns. The rapid contraction in Slovak trade with the Czech Republic accompanied an impressive overall foreign trade performance that put Slovakia in the same league as bold reformers from Central Europe (the Czech Republic, Hungary, Poland). However, as noted above, the emergence of Slovak Republic as a sovereign state —or more precisely the establishment of state borders with the Czech Republic—profoundly depressed the trade between these two economies. Three observations are noteworthy. First, the contraction in mutual trade was dramatic in both relative and absolute terms. Following the 'velvet divorce' of the Czechoslovak federation on 1 January 1993 the trade between the two new sovereign states immediately fell as compared with their respective 'domestic' sales in 1992. Czech exports to Slovakia declined 24 percent, and imports from Slovakia 26 percent in 1993 (ECE 1994, p. 96). The share of mutual trade in their respective totals was falling each year over 1993-00 on both export and import side (Table 3).[5] The value of both exports and imports was lower in 2000 than in 1993,[6] although both Slovak exports and imports from the Czech Republic increased in terms of value in 2000 over 1999. Yet, the share of the Czech Republic in Slovakia's trade kept falling in 2001 and the first quarter of 2002 according to the official Slovak trade statistics.

Table 3: The Share of Slovak Republic in Czech Exports and Imports and the share of Czech Republic in Slovak Exports and Imports, 1993-2001 (in percent)

	1994	1995	1996	1997	1998	1999	2000	2001	Memo: Index 2001, 1994=100
Czech Republic									
Share in exports	16	14	14	13	11	8	7	7	44
Share in imports	14	12	10	8	7	6	5	5	36
Slovak Republic									
Share in exports	37	35	31	31	21	18	17	17	47
Share in imports	30	27	25	22	19	17	15	15	49

Source: *Direction of Trade Statistics Yearbook*, IMF, Washington D.C., various issues, and official government web site http://www.statistics.sk/webdata/english/tab/fot/iae01.htm

Second, although the contraction in respective shares of exports was almost identical (i.e., they stood in 2001 at 44 percent for the Czech Republic and 47 percent for Slovakia of the 1994 level), Slovakia has remained more dependent on trade with the Czech Republic than vice versa. The share of Slovakia in Czech imports declined significantly more than the share of the Czech Republic in Slovak imports. For the more developed Czech Republic, trading with Slovakia was initially less important and currently accounts for around six percent.

Third, not surprisingly, the customs union arrangement between the two countries could prevent neither relative nor absolute contraction in trade. It could not result in trade expansion, as is usually the case with preferential trading agreements. The creation of two states led to the emergence of new obstacles to trade including separate currencies, administrative procedures required to control origin of traded goods as well as 'creeping-in' different technical standards. Quick disappearance of a monetary union exacerbated the decline in trade. So did the devaluation of the Slovak koruna against the Czech koruna as well as establishment of a complicated payment

[5] No official estimates are available for 1993. According to an unofficial estimate, the value of Czech exports fell around 40% and that of Czech imports from Slovakia around 30%. See PlanEcon (1994).

[6] The value of Slovak exports was 18 percent lower in 2000 than that in 1993 and the value of imports 4 percent lower.

system.[7] Slovakia, confronted with what was then regarded as an unsustainable deficit, erected other barriers to imports from the Czech Republic including import taxes, quotas on imports of non-alcoholic beverages and beer, and burdensome technical certification procedures. If anything, the developments in their mutual trade have clearly demonstrated that even free trade falls well short of assuring the level of interaction occurring among firms operating within the same state boundaries and using the same currency. Yet, as we shall argue below, the case can now be made for closer policy-induced integration within the pan-European framework.

Since Czech markets still absorb almost one-fifth of Slovak exports (after Germany the second largest purchaser of Slovak goods), an important question is whether the fall in their relative importance will continue. The most recent data for the first quarter of 2002 indicate the fall in the value of exports to the Czech Republic of almost 14 percent following two years of positive growth rates in 2000 and 2001. It should be noted, however, that its exports to Germany, its largest trading partner, also fell significantly by 10 percent. Hence, this may be a temporary phenomenon rather than a reversal of the trend. Without a more detailed analysis of the composition of this trade, however, no firm answer can be offered.

2.2. Emerging patterns of Czech-Slovak trade

How has Czech-Slovak trade evolved since the velvet divorce? First, let us note that Slovak exports to the Czech Republic have become less concentrated. Both the number of products accounting for less than one percent of Slovak Czech-oriented exports and their share in total exports to the Czech Republic have significantly expanded (Table 4). This would suggest that (a) exports have become more diversified and less vulnerable to swings in Czech import demand; and (b) small firms are major agents of this trade.

Table 4: Diversification of Slovak Exports to Czech Republic, 1994-2000

Product (SITC 4-digit, rev. 1)	1994	1995	1996	1997	1998	1999	2000
No. of products with an export share to Czech Rep. of at least 1%	24	24	19	26	23	23	19
Total export share of products to Czech Rep. of at least 1% (in %)	46	43	35	52	47	48	35
Total export value of products to Czech Rep. of at least 1% share ($ million)	1,141	1,312	947	1,274	1,033	872	713
Memo: total export value of products to Czech Rep. Below 1% ($ million)	1,360	1,550	1,614	1,180	1,146	947	1,015

Source: Derived from Slovak foreign trade data as reported to the UN COMTRADE database.

Second, despite growing diversification in Slovak Czech-destined exports, Slovak firms remain dominant suppliers in a number of markets. Slovak exports with a share in total Czech imports exceeding 50 percent account for a quarter of total Slovak exports to the Czech Republic, and those with the share exceeding one-third for 30 percent of these exports. The largest export item in terms of volume (US$ 192 million in 2000) among four-digit SITC. Rev. 2 products with a 59 percent share in Czech imports is residual fuel oils (SITC. 3324), followed by iron steel medium plates (SITC. 6742)—the value of US $68 million yielded the share of 51 percent in Czech imports (see Annex Table 1).

This simultaneous diversification combined with concentration and strong presence of exporters of a significant number of products in Czech markets (46 four-digit SITC products have a 30 percent or higher share in total Czech imports) appears to point to a dual picture that has emerged in Czech-Slovak trade. On the one hand, there are large firms that have already

[7] For more details see ECE (1994).

undergone restructuring likely with foreign investments and, on the other hand, there are a growing number of small firms trading with their equivalents across the border.

Table 5: Shares and Specialization Indices of Slovak Exports to Czech Republic, 1994-00

Product (SITC Rev. 1)	1994	1995	1996	1997	1998	1999	2000
	Share in Slovak Total Czech-Destined Exports						
All Manufactures (5+6+7+8-68)	79.4	77.9	66.2	79.6	78.0	71.9	69.6
Chemical Elements (51)	3.8	3.2	2.4	3.1	3.0	2.9	3.3
Leather Goods (61)	0.6	0.4	0.3	0.3	0.3	0.2	0.3
Wood Manufactured (63)	0.8	0.8	0.6	0.6	0.5	0.5	0.5
Textiles, Yarn and Fabric (65)	4.7	4.2	3.9	3.6	3.7	3.2	3.1
Iron and Steel (67)	14.3	16.2	5.8	15.2	17.1	11.9	15.3
Metal Manufactured (69)	3.3	3.4	3.5	3.3	3.7	3.6	3.1
Non-Electric Machinery (71)	8.2	7.1	7.3	7.1	6.8	6.6	5.6
Electrical Machinery (72)	7.0	6.2	5.3	6.8	6.5	5.6	4.7
Transport Equipment (73)	5.8	5.7	6.6	8.8	6.2	5.6	5.3
Furniture (81)	1.6	1.5	1.4	1.1	0.8	0.8	0.6
Clothing (84)	1.6	1.3	1.4	1.6	1.6	1.7	1.9
Footwear (85)	1.0	1.0	1.3	0.7	0.6	0.6	0.4
Scientific Instruments (86)	1.2	0.9	0.9	0.7	0.7	0.7	0.5
All Goods (0 to 9)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Export Specialization Index						
All Manufactures (5+6+7+8-68)	1.1	1.0	0.8	1.0	1.0	0.9	0.9
Chemical Elements (51)	1.3	1.3	1.1	1.4	1.5	1.6	**1.9**
Leather Goods (61)	1.3	*0.5*	*0.4*	*0.6*	*0.5*	*0.4*	*0.5*
Wood Manufactured (63)	1.7	1.6	1.1	1.1	*0.8*	*0.9*	*0.9*
Textiles, Yarn and Fabric (65)	2.3	1.1	1.1	1.0	*0.9*	*0.8*	*0.8*
Iron and Steel (67)	3.7	3.2	1.4	3.6	3.5	2.9	**3.5**
Metal Manufactured (69)	1.2	1.1	1.0	1.0	1.0	1.0	0.8
Non-Electric Machinery (71)	0.4	0.4	0.4	0.5	0.4	0.4	0.4
Electrical Machinery (72)	0.7	0.5	0.4	0.5	0.4	0.4	0.3
Transport Equipment (73)	1.0	0.9	0.9	1.0	*0.7*	*0.6*	*0.6*
Furniture (81)	1.3	1.4	1.3	1.0	*0.6*	*0.6*	*0.6*
Clothing (84)	1.0	0.7	0.7	1.0	1.1	1.1	**1.4**
Footwear (85)	1.5	2.0	2.1	1.2	1.3	1.3	**1.0**
Scientific Instruments (86)	0.4	0.3	0.3	0.3	0.3	0.3	0.2

Note: Export Specialization Index is calculated as a ratio of shares of Slovak exports to Czech to the shares the Czech external imports.
Source: UN COMTRADE Statistics.

Third, there has been a shift towards agricultural products and raw materials in the Slovak export basket to the Czech Republic demonstrating a huge geographical reorientation in the Czech import demand for manufactures away from Slovakia. The share of manufactures fell from 79 in 1994 to 70 percent in 2000. The only two product groups that increased their share in Czech imports are iron and steel (SITC. 67) and clothing (SITC. 84). Together with chemical elements (SITC. 51), these are the only manufactured products that appear to have comparative advantage in Czech markets, i.e., export specialization indices exceeded unity (see Table 5 above).[8] This contrasts sharply with a situation in 1994 when Slovak manufactures outperformed

[8] The Export Specialization Index (ESI) is a slightly modified Balassa's Revealed Comparative Advantage Index. The difference is that ESI relates to the ratio of the share of a product in Slovak EU-oriented exports

suppliers from other countries across all but three product categories shown in Table 5—non-electric and electric machinery (SITC. 72 and 73) and scientific instruments (SITC. 86). Interestingly, it does not necessarily imply the loss of competitiveness in these products in international markets, as their share in EU imports increased over the same period of time (see Kaminski and Smarzynska 2002, Annex Table 3).

Fourth, Slovakia's Czech-directed export basket has simultaneously shifted towards less processed goods. As can be seen from Table 6 presenting the composition of Slovakia's trade with the Czech Republic over 1995-2000 in terms of the 'end-use' categories of the US Bureau of Economic Analysis,[9] the combined share of foods, feeds and beverages, and industrial supplies and materials—a good proxy for low processed goods—has been on the increase since 1996.

Table 6: Slovak Trade with Czech Republic by End-Use Product Category, 1995-2000

Product (SITC Rev. 1)	1995	1996	1997	1998	1999	2000	As percent of Slovak Total trade in 2000	As percent of Czech total trade in 2000	Annual Rate of Growth (in %)		
									1999-2000	1997-2000	1995-96
	Export Composition (in %)										
Food, feed and beverages	7.2	6.5	6.7	8.1	9.2	7.7	1.3	10.0	-5.0	-1.1	-18.6
Industrial supply materials	12.1	12.7	13.5	13.7	18.7	22.4	3.9	9.3	36.1	11.7	-5.2
Capital goods, excluding auto	14.0	13.5	14.7	14.2	13.4	11.5	2.0	2.3	-2.5	-13.1	-12.7
Cars and auto parts	5.0	5.6	7.9	5.2	4.5	4.2	0.7	3.7	7.4	-23.4	3.0
Consumer goods	61.7	61.7	57.2	58.7	54.3	54.3	9.4	8.7	13.6	-7.2	-9.5
All goods ($ million)	3024	2737	2454	2179	1819	2067	17.4	6.4	13.6	-5.6	-9.5
	Import Composition (in %)										
Food, feed and beverages	10.6	10.1	10.7	12.0	14.2	13.0	1.9	20.4	-7.2	-2.9	4.8
Industrial supply materials	13.3	11.3	10.9	9.9	9.8	10.6	1.6	9.3	9.3	-9.9	-6.7
Capital goods, excluding auto	16.7	16.4	17.8	15.3	14.7	15.4	2.3	3.5	5.9	-13.4	8.4
Cars and auto Parts	7.3	10.5	12.8	13.2	13.5	12.7	1.9	5.3	-4.8	-9.3	59.1
Consumer goods	52.1	51.7	47.8	49.5	47.7	48.2	7.1	7.1	2.3	-8.8	9.2
All goods ($ million)	2,434	2,682	2,503	2,402	1,857	1,880	14.7	6.5	1.2	-9.1	10.1

Note: End-use product categories are defined as Food, feed & beverages (SITC 0+1+22+4); Industrial Supply materials (SITC 2+3+68-22); Capital goods, excluding cars (SITC 7-732-733); Cars and auto parts (SITC 732+733) and Consumer goods (SITC 5+6+8+9-68).
Source: Based on Slovakia as reporter from UN COMTRADE Statistics.

Their share rose from 19 to 30 percent over this period. The expansion in exports of industrial materials in 1998-2000, whose value increased 50 percent from US$ 298 million to US$ 462 million, was the major force behind this increase in the share of less processed goods. It is interesting to note that the share of processed goods in Slovak imports from the Czech Republic

to the share of this product in EU-external imports rather than its share in world exports. A value for this index below unity indicates a comparative disadvantage in EU markets, and above unity specialization in EU markets.

[9] This allows identification of products by their use by buyers rather than in terms of their positions in production process. For a more detailed discussion, see (Kaminski and Smarzynska, 2002, Section 3).

has remained flat. But had it not been for a significant increase in the share of automotive parts in Slovak imports (from 7 to 13 percent), it would have displayed similar tendency as that in Slovak exports.

A good illustration of the disappearance of division of labor within industrial sectors is trade within the automotive network. As can be seen from data in Annex Table 2, there was a massive reorientation of this trade away from Czech to EU markets. This was not a redirection, as both Czech and Slovak automotive sectors underwent restructuring carried out by multinational corporations (MNCs), mainly by Volkswagen. Both became veritable powerhouses of the Central European automotive sector accounting for almost 50 percent of the aggregate output of CEEC-10 and more than half of their exports.[10] Czech Republic became the largest and Slovakia the third largest producer among them. Yet, restructured firms turned to other sources of supply, mainly in the EU but also domestically. The share of parts and components originating in the EU in Slovak total imports automotive parts and components increased from 36 percent in 1995 to 92 percent in 2000, while the share of Czech suppliers fell from 51 percent to 4.2 percent over the same period. The same happened on the side of exports with one exception, Slovak exports of internal combustion engines to the Czech Republic significantly expanded.

It thus appears that the existence of internal borders—even under customs union arrangements—has affected outsourcing strategies pursued by the major automotive foreign investor in both countries—Volkswagen Group. Otherwise, it is difficult to explain why so many local Czech firms have become integral part of the supplier chain of Volkswagen and few, if any among Slovak firms provide inputs Volkswagen in the Czech Republic.[11] The economic border was not a barrier on the demand side for a finished product, however. Consider that in contrast to parts, trade in final product, i.e., cars and trucks has not followed the same pattern with Czech producers of passenger cars even recording a significant increase in their share of cars imported into Slovakia.

Fifth, low share of products representing lines of production characterized by low value added, high natural resource-intensiveness and simple technologies depict the mutual trade. This should come as no surprise considering, as noted above, a significant presence of small firms in this trade. Their commodity trade pattern reflects significant endowment in highly skilled labor in both countries. Table 7 presents estimates of commodity groups divided into four groups that reflect distinct relative factor intensities, i.e., natural resource-intensive products, unskilled labor-intensive products, capital-intensive products and skilled labor-intensive products.[12] As can be seen from data in Table 7, the combined share of unskilled labor intensive and natural resource based products in Slovak Czech-destined exports expanded between 1996 and 1999, and then precipitously fell in 2000. Interestingly, the share of these products, albeit also displaying volatility, in Slovak imports from the Czech Republic was at a similar level. Skilled labor-intensive products account for a dominant share of their mutual trade.

[10] Derived from data in "Revue Elargissement, Special Automobile," *Revue Regionale*, Dossier No. 25 – September 2002.

[11] Such a situation may be also partially due to slower development of automotive part industry in Slovakia.

[12] The goodness of results obtained hinges critically on the quality of a classification used to examine export baskets over time by factor mix. There are woeful difficulties to define and measure factor intensity with which trade theorists have long wrestled. The advantage of this classification is that all industries are taken into account and an industry appears only in one classification. Its weakness is that some industries may be intensive in terms of more than one factor. Although this may clearly distort the results, one may identify on this basis broad lines of change occurring in export offer over time. For more details, see Kaminski and Smarzynska (2001).

Table 7: Factor Intensity of Slovak Trade with the Czech Republic, 1995-200

Factor Intensity	1995	1996	1997	1998	1999	2000	
	Exports to Czech Rep. ($ million)						Annual Growth In 2000 (%)
Natural Resources	580	480	628	594	604	394	-34.8
Unskilled Labor	367	326	268	224	180	200	10.9
Capital intensive	759	662	636	543	435	452	4.0
Skilled Labor	1,076	695	921	817	599	682	13.9
	Composition of Exports to Czech Rep. (%)						Index in 2000 (1995=100)
Natural Resources	20.8	22.2	25.6	27.3	33.2	22.8	112.5
Unskilled Labor	13.2	15.1	10.9	10.3	9.9	11.6	90.3
Capital intensive	27.3	30.6	25.9	24.9	23.9	26.2	98.6
Skilled Labor	38.7	32.1	37.5	37.5	32.9	39.5	105.0
	Export Specialization Index						Index in 2000 (1998=100)
Natural Resources	0.8	0.8	1.1	1.3	1.7	1.0	76.3
Unskilled Labor	1.1	1.1	0.9	0.9	0.8	1.0	117.2
Capital intensive	0.7	0.6	0.7	0.6	0.6	0.6	106.0
Skilled Labor	1.6	1.1	1.5	1.4	1.3	1.6	109.7
	Composition of Imports from Czech Rep. (%)						Annual Growth In 2000 (%)
Natural Resources	25.3	22.9	24.3	25.1	27.5	26.7	-2.6
Unskilled Labor	11.9	11.3	11.7	12.5	11.6	12.1	4.5
Capital intensive	27.5	26.0	25.5	22.9	23.7	24.6	4.2
Skilled Labor	34.6	32.2	38.5	39.5	37.1	36.6	-0.9

Note: Export Specialization Index is calculated as a ratio of shares of Slovak exports to the EU to the shares of the EU external imports.
Source: Computations based on Slovak data as reported to UN COMTRADE database.

Calculations of Slovak export specialization indices in Czech markets show that skilled labor is in relative abundance in Slovakia. Slovak firms specializing in skilled labor intensive products have been at a strong comparative advantage in Czech markets vis-à-vis other exporters, as the values of this index were consistently well above unity over the 1990s. Exporters of unskilled labor intensive products regained their export specialization in 2000 after a weaker performance over 1997-99. The growth in share of agricultural products has been responsible for improvement in competitive position of natural resource based products between 1995-99 (followed by a drop in 2000), albeit, as we not below, not only. Last but not least, Slovak producers of capital intensive products have been at a comparative disadvantage in Czech markets.

2.3. Concluding Observations

The analysis provides empirical support to two observations. First, the process of mutual adjustment triggered by the emergence of national borders seems to be over. Provided that commitment to align their respective regulatory structures with the *acquis* remains strong in both countries, no new barriers to their mutual trade will emerge. To the contrary, many barriers erected over the last decade will disappear as both countries converge toward the *acquis*. Hence, the trade is rather unlikely to continue its downward course.

Second, the continuing importance of resource intensive exports does not strike one as surprising for two reasons—Czech markets offer agricultural producers the best conditions in access among Slovak preferential partners and there appears to be little of intra-industry trade driven by production fragmentation. One wanders whether the dismantling of internal economic borders between the Czech Republic and Slovakia, as will be discussed in the next section, would not provide a boost to this trade.

3. CSCU as a Stepping Stone to EU Integration

Since the Agreement establishing the customs union went into effect, a close coordination of foreign and customs policies has been maintained in both multilateral and bilateral forums. A new common external tariff (CET) had duties that were applicable in the former Czechoslovakia on December 31, 1992, holding intact all concessions granted earlier by the former Czechoslovakia to GATT contracting parties during pre-Uruguay's rounds of multilateral trade negotiations.[13] The two countries jointly negotiated during the Uruguay Round and their final schedules were almost the same.[14] They also jointly became participants of the WTO Information Technology Agreement in 1997 and eliminated tariffs on information technology imports as of January 1, 2002. Last but not least, the Council of the Customs Union, consisting of an equal number of Czech and Slovak representatives, has pursued common commercial policy towards third countries. It has made sure that the same legal norms would be adopted regarding rules of origin, customs procedures, statistics, intellectual property, countervailing and antidumping.

Membership in a customs union has two major potential advantages over a free trade area. First and foremost, it does not require implementing very costly rules of origin among members, as all products entering the customs union are subject to the CET and other taxes and charges collected by customs. Second, the advantage of a customs union is that it offers the opportunity of completely removing border formalities. This significantly cuts transaction costs, as the cost of inefficient customs clearance procedures often exceeds tariffs.[15]

The CSCU capitalizes on the first advantage, but has failed to exploit the second. Article 1.3 of the Agreement establishing the customs union stipulates that "… customs clearance shall be effected on a common state and customs frontier between the Czech Republic and the Slovak Republic." In consequence, the flow of trade between two countries is not unfettered. It is subject to customs controls. Imports from, for instance, the Czech Republic cannot be sold in Slovakia

[13] Czechoslovakia was one among 23 countries that signed the GATT in 1947. Despite the obvious irrelevance of GATT codes for a country institutionally committed to the state monopoly over foreign trade, Czechoslovakia actively participated in the Tokyo Round of multilateral negotiations. Its positive legacy, i.e., once communism collapsed, was low tariff rates and other commitments to GATT disciplines liberalizing market access.

[14] Since the customs union agreement did not allow for a free flow of trade originating in third countries, the value of imports from developing countries on GSP basis as well as the volume of imports eligible for in-quotas rates have varied between two countries. So have import limits on products subject to non-automatic import licensing.

[15] In the mid-1990s, customs clearance transaction in countries of Middle East and North Africa required between 25 and 35 stages taking several weeks (Hoekman and Kostecki 2001). But even efficient customs clearance procedures impose significant cost. For instance, shipping goods across the U.S.-Canadian border—that is, between countries which are part of the same free trade area (NAFTA) and have well-operating customs procedures—is equivalent to adding 2,700 kilometers in transport costs (Engel and Rogers 1996).

unless the Slovak Customs clear them. From this point of view, internal arrangements are similar to those in a free trade area. All products crossing the border must have a certificate of origin.

Internal border has allowed the Agreement to withstand pressures stemming from differences in their respective economic policies over the 1993-98 period. During that time the Czech Republic moved fast to bring its economic regime in line with the *acquis communautaire*, whereas Slovak progress in that area was stalled. Internal economic border has allowed for a considerable discretion in decisions affecting imports. For instance, Czech exports of consumer products to Slovakia faced a temporary import surcharge of 10 percent in 1995-96, reduced to 7 percent in 1997 and 5 percent in 1998. Slovak exports faced extra barriers when the Czech government introduced import deposits in 1997.[16]

While all these measures could be justified on the grounds of balance-of-payments crises faced in different times by respective countries, narrow interest groups captured trade policies in both countries and, in addition, the Slovak authorities resorted to technical barriers to trade.[17] The policy-capture resulted in providing protection to narrow groups of domestic producers through quantitative restrictions. The Czech Republic limits imports of sugar and isoglucose, whereas Slovakia restricts imports of non-alcoholic beverages and sugar. In September 1997 the Slovak authorities introduced a requirement that imported products obtain an obligatory technical certification subject to specific regulations and Slovak technical norms (Besik 1998). This has erected a serious barrier to trade, as the procedures on imports of foodstuff, for instance, became subject to burdensome procedures only removed in January 2001 (FIAS 2001). Indeed, in the absence of harmonization in technical standards or principles of taxation including tax rates, borders have to be maintained, albeit with simpler border procedures.

The internal economic border had to be maintained also when there was a real prospect of the Czech Republic acceding earlier to the EU than the Slovak Republic. While the Czech Republic together with Estonia, Hungary, Poland and Slovenia, were invited in July 1997 to begin accession negotiations (which started in March 1998), the Slovak Republic joined in only after the EU Helsinki Summit in December 1999. This was a much welcome outcome, as separate accessions of the CSCU members would raise a number of hair-splitting legal issues, if the two countries wanted to maintain the existing arrangement. Had there been no internal economic border, it would have had to be established.

Since the European Commission has changed its initial position and included Slovakia among the first-wave entrants to the EU, the wisdom of maintaining an internal economic border needs to be re-examined. As mentioned above, no matter how efficient customs controls are, traders incur significant transaction costs. Borders generate transaction costs that fragment markets. The elimination of internal economic borders would create a larger integrated market (at least in terms of the movement of goods) offering economies of scale. The prospect of accession combined with earlier opportunity of tapping benefits of larger markets as well as the achieved level of integration driven by the EU accession provide powerful arguments in favor of a faster alignment with the *acquis* through closer cooperation within the CSCU.

Before turning to institutional and regulatory alignment driven by the EU-accession process, it is worth noting that two standard arguments in favor of maintaining internal economic

[16] On April 27, 1997, the Czech Government obliged importers to deposit 20 percent of the invoice value of a transaction for six months at no-interest. This measure, which was revoked on August 21, 1997, applied to 30 percent of Czech imports (Drabek 1998).

[17] With a bit of stretching, these are allowed under Article 11 of the Agreement on "… grounds of public morals, public interest or public security, the protection of human health or life, life and health of animals or plants…"

borders within a customs union—lack of trust in customs and different tax rates—do not seem to apply to the CSCU. Differences in the quality of customs administration, rules and rates of taxation, procedures in customs valuations as well as fear of conflicts over allotment of customs revenue are not critical. According to independent external assessments, both countries have a modern and well-run customs administration, which also augur well for proper distribution of customs revenue between two countries. Both countries observe the rules of the WTO Customs Valuation Agreement requiring that members levy customs duties on an imported good's transaction value rather than on some reference price constructed by the government. Both countries maintain accurate and up-to-date computer databases of prices that they use to detect fraudulent invoicing. Different tax rates could be addressed in negotiations between the two governments.

Institutional and regulatory evolution driven by the accession has led to the growing overlap in regulatory regimes of both countries especially in areas pertinent to external economic interaction. Differences in derogations and transitional periods that have been negotiated by the Czech Republic and Slovak Republic with the EU are minor.[18] In fact, transitional periods requested by both countries do not differ with respect to four freedoms of movement (goods, services, capital, people) underlying the European "Single Market." They could apply fully "four freedoms" within the CSCU even before the transitional period of up to five years for freedom of movement of persons, requested by the EU, expires. Moving to a single market would not put strains on their trade relationships, as similar provisions as in the European Association Agreement of which both countries are signatories already cover a number of areas relevant from the point of view of deeper integration. Both countries are part of the Pan-European Cumulation Agreement and thereby of a single European free trading bloc for manufactures. In other words, trade in manufactures between the Czech Republic and Slovakia is governed by the same rules as with other CEFTA, EU and EFTA countries. They all adhere not only to the same preferential rules of origin as stipulated by the Pan-European Cumulation Agreement, but also to the same non-preferential rules of origin based on the system used by the EU in 1993. Last but not least, there are no significant technical barriers to trade in the CSCU as both countries concluded negotiations on Protocol to the Europe Agreement on Conformity Assessment (PECA).[19] Both have incorporated in their respective regulations the EC *Directives* with the transposition level in the Czech Republic reaching 100 percent and in Slovakia 99 percent (EC 2002c).[20] For these reasons alone, border customs controls within the CSCU would seem to be redundant.

However, there are two areas in which there are differences in alignment to the *acquis* in terms of enforcement—technical standards and intellectual property rights. As for the former, the Czech Republic has made greater strides towards EU membership. It not only signed PECA (as opposed to Slovakia's initialization of it) but also established administrative capacity to meet the *acquis*. The Czech Republic has functioning market surveillance services, as demonstrated by the fact that the EC has given satisfactory marks the Czech Trade Inspectorate for market surveillance of industrial products. EU CE marking is accepted there, while Slovakia is yet to follow suite in spite of having the legal enforcement basis since April 2002. Last but not least, Slovakia is yet to introduce "… the checks for conformity with the rules on product safety on

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[18] For the current (as of September 2002) status of progress in accession negotiations, see EC 2002a.

[19] PECA deal with products for which technical regulations have been already harmonized within the EU (Brenton 2002). These products amounted to around one-third of industrial value added in the EU in 1995 (Messerlin 2001, Table 4.5). The Czech Republic signed PECA in July 2001, and Slovakia initialed it in July 2002 (EC 2002b and c).

[20] One should also note that both countries have special arrangements for mutual recognition of certificates and test results.

imports from third countries" (EC 2002b), while the Czech Republic already has them in place. Thus, it seems that Slovakia would benefit greatly from closer cooperation with the Czech Republic in this area.

Similar considerations—as outlined above—also apply to protection of intellectual property. Both CSU member-countries are members of the World Intellectual Property Organization and signed the GATT Agreement on Trade-Related Intellectual Property Rights (TRIPS). The latter requires that WTO members provide certain minimum levels of intellectual property rights (IPR) protection, such as 20-year patent terms, patents on medicines, plant variety protection, protection of geographical indications, and the like. With the split of the former Czech and Slovak Federal Republic, most of the staff, equipment and know-how stayed in the Czech Republic. The Slovak intellectual property rights protection was established from scratch. The current system has a number of flaws, according to the 2001 FIAS assessment, and has a long way to go to be in line with the *acquis communautaire*. In contrast, all areas pertinent to intellectual property rights protection in the Czech Republic have been reformed and the Czech regime is highly compatible with that in the EU (WTO 2001, EC 2001).

It would make a lot of economic sense for the government to begin working on the removal of internal economic borders within the CSCU. Leaving aside the obvious fact that larger markets are a stronger magnet to FDI inflows and offer better opportunities for domestic firms by lowering transaction costs, the implementation of measures necessary to remove the internal CSCU borders would simultaneously improve investment climate in Slovakia and align its regulatory regimes closer with the *acquis*. Close cooperation in bringing standards in line with those in the EU would provide an extra boost to integration of domestic firms into international markets. Harmonization of national standards is essential to participation in international supply chains spread out over several countries, in assembly operations as common standards reinforce linkages between component manufacturers, assembly operations, and distributors in the final product markets. Good regime of intellectual property rights is also crucial for investment in creative industries and industries intensive in research and development.[21] Both countries would also benefit from economies-in-scale in enforcement costs related to standards and intellectual property rights.

In all, regulatory cooperation within the CSU and the elimination of internal economic borders would yield tangible benefits to Slovakia. It would enhance its investment climate and reduce the need to attract FDI through costly tax incentives package.

4. Conclusions

The analysis provides an unequivocally positive answer to a question whether integration with the CSCU similar in depth and scope as currently existing within the EU would prepare Slovakia to better handle challenges associated with accession to the EU. Consider first that the process of mutual adjustment triggered by the emergence of national borders seems to be over. The trade between the two countries is rather unlikely to continue its downward course, as—given their mutually shared commitment to align their respective regulatory structures with the *acquis*—no new barriers to their mutual trade will emerge. To the contrary, the regulatory alignment driven by the *acquis* can be expected to lower border and behind-the-border barriers.

There appears to be little of intra-industry trade in Czech-Slovak trade, which is driven in contemporary global economy by production fragmentation. The removal of internal economic borders is likely to provide a boost to trade in parts and components within production and distribution networks. The improvement in the policy environment achieved thanks to measures

[21] For empirical evidence from transition economies, see Javorcik (2003).

necessary to remove internal customs controls and less fragmented markets will also increase attractiveness to foreign investors of both countries.

Last but not least, the implementation of measures necessary to remove the internal CSCU borders would improve investment climate in Slovakia thanks to faster alignment of regulatory regimes with the *acquis communautaire*. For instance, establishing a good regime of intellectual property rights, closing the gap in national standards and their harmonization would provide an extra boost to integration of domestic firms into international markets and investment in creative industries that are intensive in research and development. While one expects transition periods for both countries to adopt the *acquis*, two countries might adopt it fully in their mutual economic relations. The marriage a decade or so after the "velvet divorce" would be different in two important respects—it would take place within a broader European "family" and it would involve the economic sphere.

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Statistical Annex

Annex Table 1: Slovak Products with Shares in Czech Republic Total Imports exceeding 33 percent in 2000 (four-digit SITC. Rev. 2)

Product (SITC Rev. 1)	Exports ($ million) in 2000	Share in Czech Imports (in %)				Factor Intensity
		1997	1998	1999	2000	
6611 LIME	2	99.3	99.0	98.1	94.4	Natural Res.
6612 CEMENT	27	94.2	92.9	90.1	87.1	Natural Res.
2850 SILVER AND PLATINUM ORES	1	94.9	79.5	65.1	75.7	Natural Res.
0221 MILK CREAM EVAPD,CONDNSD	1	57.4	50.0	59.6	75.1	Natural Res.
5711 PREPARED EXPLOSIVES	2	88.6	71.1	75.2	74.8	Capital
7111 STEAM BOILERS	10	13.1	5.3	25.0	73.4	Capital
6727 IRN,STL COIL FR REROLLNG	45	82.8	77.0	73.8	72.0	Skilled labor
1222 CIGARETTES	10	77.6	80.7	82.4	70.0	Natural Res.
2423 SAW-,VENEER-LOGS NON-CON	4	50.5	37.9	45.1	66.6	Natural Res.
5124 ALDEHYDE ETC FNCT CMPNDS	26	75.3	68.8	61.3	64.9	Capital
0619 SUGARS AND SYRUPS NES	10	40.9	65.1	62.0	62.5	Natural Res.
3322 WHITE SPIRIT,KEROSENE	14	0.0	55.9	51.1	61.8	Natural Res.
6747 TINNED PLATES,SHEETS	14	78.0	68.1	77.0	61.7	Skilled labor
2112 CALF AND KIP SKINS	1	42.7	54.0	64.4	60.8	Natural Res.
2411 FUEL WOOD AND WASTE	0	54.5	84.3	54.4	59.3	Natural Res.
3324 RESIDUAL FUEL OILS	192	0.0	57.5	57.1	58.6	Natural Res.
4217 RAPE,COLZA,MUSTARD OILS	5	77.7	59.8	66.3	58.0	Natural Res.
0616 NATURAL HONEY	0	80.4	34.9	32.2	54.9	Natural Res.
0440 MAIZE UNMILLED	6	24.0	66.2	58.5	54.2	Natural Res.
2664 WASTE OF SYN,RGNRTD FBRE	0	53.3	72.8	44.5	54.2	Natural Res.
0482 MALT INCLUDING FLOUR	1	0.0	74.3	38.3	53.4	Natural Res.
6715 OTHER FERRO-ALLOYS	29	62.5	53.5	50.4	51.8	Natural Res.
6742 IRN,STL MEDIUM PLATE ETC	68	66.9	52.7	49.6	50.5	Skilled labor
5611 CHEM NITROGENOUS FERTLZR	19	62.5	55.1	48.9	50.0	Capital
4311 PROCESD ANML,VEG OIL NES	1	27.0	33.1	41.4	47.6	Natural Res.
6714 FERRO-MANGANESE	4	29.4	42.0	42.7	46.7	Natural Res.
0913 PIG,POULTRY FAT RENDERED	0	91.5	90.1	52.1	45.7	Natural Res.
2820 IRON AND STEEL SCRAP	6	81.0	60.1	74.1	44.6	Natural Res.
2412 WOOD CHARCOAL	0	72.9	56.3	82.9	44.1	Natural Res.
2762 REFRACTORY MINERALS NES	7	44.9	40.8	38.5	43.7	Natural Res.
2218 OIL SEEDS,NUTS,ETC NES	4	50.2	51.8	41.6	42.0	Natural Res.
6294 RUBBER BELTING	12	48.4	39.9	45.8	40.2	Skilled labor
7112 BOILER HOUSE PLANT NES	1	33.8	18.1	17.0	39.9	Capital
1123 BEER,ALE,STOUT,PORTER	2	26.3	25.8	31.4	39.9	Natural Res.
2433 LUMBER SHAPED NON-CONIFR	13	38.4	37.0	37.3	39.6	Natural Res.
0223 MILK AND CREAM FRESH	9	6.5	6.8	15.4	35.0	Natural Res.
9510 WAR FIREARMS,AMMUNITION	4	0.2	0.7	20.5	34.5	Unskilled Labor
6636 MINRL MFS NES NONCERAMIC	11	30.2	31.3	31.8	34.5	Natural Res.
3510 ELECTRIC ENERGY	17	0.3	0.2	19.7	34.3	Natural Res.
2214 SOYA BEANS,EXCL FLOUR	1	0.9	10.4	40.3	33.2	Natural Res.
0 to 9 ALL GOODS	1,931	8.4	6.9	6.1	6.0	

Source: Based on Czech as reporter from UN COMTRADE Statistics.

Annex Table 2: Change in the Direction of Trade: The case of Automotive Network in Slovakia, 1995-2000.

	European Union			Czech Rep.			Memo: Czech R.	
Product (SITC Rev. 2)	1995	1998	2000	1995	1998	2000	Index, 1995 = 100	
Motor Vehicles	**Exports in terms of percent**						1998	2000
781 Passenger motor cars, for transport	62.3	92.0	87.1	5.4	0.1	0.6	2	11
782 Motor vehicles for transport of goods	2.9	8.1	16.6	63.0	68.2	18.6	108	29
783 Road motor vehicles, others	29.6	69.7	33.2	9.6	21.7	55.5	225	577
722 Tractors fitted or not with power	45.2	31.8	31.4	20.2	9.7	23.4	48	116
74411 Work trucks, mechanic. propel.	65.3	67.7	91.5	17.5	10.5	5.0	60	28
Components								
77831 Electr.starting & ignition equipment	17.0	35.7	42.0	65.2	42.3	27.8	65	43
77832 Electr.lighting & signaling equip.,	5.7	46.5	52.5	62.0	28.1	35.3	45	57
7132 Internal combustion piston engines	13.1	6.1	15.9	11.8	6.3	17.8	54	150
71623 Generating sets with internal combustion piston	4.4	13.3	10.6	78.8	15.9	19.4	20	25
Parts								
7139 Parts of internal comb piston engines	17.4	56.8	77.1	27.7	22.0	8.3	79	30
74419 Parts of the trucks	44.4	8.5	75.7	16.8	0.8	3.3	5	20
784 Parts & motor vehicle accessories	31.2	68.4	73.6	57.4	22.1	15.3	39	27
Total								
Motor vehicles	42.2	90.0	86.4	24.4	1.3	0.9	5	4
Parts & components	29.1	66.1	72.7	52.8	21.7	15.1	41	29
Automotive network as % of all goods (in %)	3.8	28.1	29.0	5.0	5.1	4.2	102	84
Motor Vehicles	**Imports in terms of percent**							
781 Passenger motor cars,for transport	46.1	43.4	34.0	36.4	40.1	50.0	110	137
782 Motor vehicles for transport of goods	45.5	57.6	66.0	43.4	32.5	22.9	75	53
783 Road motor vehicles, others	53.4	61.7	77.2	36.2	16.6	18.3	46	51
722 Tractors fitted or not with power	44.7	43.2	48.8	18.0	17.7	13.1	98	73
74411 Work trucks, mechanic. propel.	74.5	79.1	86.5	18.0	14.2	7.1	79	39
Components								
77831 Electr.starting & ignition equipment	17.8	82.9	89.5	69.6	11.1	7.5	16	11
77832 Electr.lighting & signaling equip.,	34.3	81.4	89.0	56.0	11.3	6.7	20	12
7132 Internal combustion piston engines	37.2	47.7	87.7	60.4	8.2	8.5	14	14
71623 Generating sets with internal combustion piston	70.2	73.4	85.0	17.6	16.8	10.6	95	60
Parts								
7139 Parts of internal comb piston engines	29.5	40.2	49.4	62.2	49.4	36.2	79	58
74419 Parts of the trucks	60.3	75.4	86.1	12.7	15.8	4.8	125	38
784 Parts & motor vehicle accessories	37.8	88.0	93.3	47.8	4.9	3.5	10	7
Motor vehicles	48.4	48.3	45.3	36.4	35.5	40.7	98	112
Parts & components	36.0	85.7	92.4	51.1	6.2	4.2	12	8
Automotive network as % of all goods (in %)	7.2	17.7	17.6	8.0	13.8	12.9	171	161

Source: Based on Slovakia as reporter from UN COMTRADE Statistics.