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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Czechoslovakia
(Spec(82)6/Add.14)

1. Introducing his country's submission the representative of Czechoslovakia stated that his government understood the problem of structural adjustment as an area, which required goal-minded steps in national economic policy. His authorities were not of the opinion that optimal - from a national or international point of view - development of production and trade structures could be achieved only by spontaneous forces. The long-term strategy of structural development could hardly be understood only as a more or less casual outcome of pure market factors.
2. Among the key priorities in the Czechoslovak economy during the recent one or two decades the goal of structural development and in parallel the target of more intensive involvement in the international division of labour, or more specifically, in international trade flows was always present. The fact that structural improvement could not be achieved through any form of autarchy and that progress in production structures was interrelated with import dependence had always been recognized.
3. The possibility of complete fulfilment of programmed targets had been strongly influenced by changing internal and especially external conditions; the latter could not be determined by his authorities and lacked stability and homogeneity. Despite these mostly external destabilizing factors of the recent decade the economy of Czechoslovakia had achieved considerable structural progress, the essential features of which were briefly described in the submission by Czechoslovakia to the Working Party.
4. In addition to the information given in the submission the Czechoslovak representative pointed out that between 1965 to 1981 the share of machinery and transport equipment (SITC class 7) in Czechoslovak exports had increased from 47 per cent to 52 per cent and in imports from 29 per cent to 35 per cent. This illustrated not only the direction and intensity of the structural development in Czechoslovak foreign trade; it showed also that this development was not limited to the sphere of exports but generated upward structural developments on the import side as well. On the other hand the share of food and live animals (SITC class 0) in Czechoslovak exports had decreased from 4.3 per cent to 3.2 per cent and the share of manufactures on a lower level of processing (SITC class 6) had gone down from 20 per cent to less than 18 per cent. This way Czechoslovakia had contributed to the opening of export opportunities for developing countries on international markets.

5. The export quota of the net material product of Czechoslovakia had increased from 16 per cent in 1960 to 23 per cent in 1970 and to 28 per cent in 1980. The import quota had increased at the same time from 15 per cent to 22 per cent and further to 31 per cent of NMP. These data supported sufficiently the view that developments in Czechoslovak foreign trade did not bear symptoms of a protectionist economic policy approach. He added that at the same time the Czechoslovak economy had suffered considerably from a deterioration of the terms of trade by some 25 percentage points taking 1973 as basis and had faced strong pressures on its balance of payments.

6. The main field of structural development in the sixties had been at macro- and mezzo-structural levels. In the seventies it had shifted to the micro-structural level. This made on the one hand exact analytical interpretation of the statistical picture of developments in world production and trade difficult, but on the other hand this shift required the introduction of new instruments and management devices into the game. These instruments were not limited to the sphere of planning capital formation, investment processes and basic proportions of capacities according to branches, but aimed at the level of the enterprise management microsphere.

7. The economic policy of Czechoslovakia took account of this situation especially since 1980 when a complex of measures aimed at an improvement of planning management of the national economy was formulated with the intention to achieve a better and more functional transmission of external factors. One of the major targets of these efforts was to incorporate more parametrical factors and to influence decisions on enterprise level through improvements of the price system and through a better flexibility of other economic indicators.

8. One member of the Working Party asked for additional information on the rationalization of the price structure mentioned in paragraph 1 on page 7 of the Czechoslovak submission. The representative of Czechoslovakia said that wholesale prices, a decisive price category influencing the structure of production, were centrally planned and government-regulated. Better reflection of verified production costs, including profit ratios established according to production branches, in wholesale prices was the main target of price system rationalization. Significant modifications of wholesale prices, aimed at covering the increased costs of imports and suppressing undesirable profit differences, had taken place continuously since 1977 taking into account the development of the internal and external conditions. The problem of widening deviations of internal price relations from those established in the world price structure had been intensified when world prices changed rapidly in the seventies. Thus, for instance, the internal wholesale prices of fuels and energy in Czechoslovakia did not reflect adequately increased energy prices on the world market. This applied to a certain extent also to the prices of some other products. As a consequence these products had not been able to fulfill properly their function as a parametrical price-forming element in the cost-calculations of many semi-finished products and manufactures. One major aim of the wholesale price-reform of 1977 was therefore to rectify the price level of energy and material inputs. Thus, the wholesale price level of a basic set of energy and material items had been increased by 1 January 1977 by some 50 per cent, that of semi-products and manufactured goods for further processing by

12.5 per cent and that of goods for final consumption by 7-8 per cent compared with wholesale prices valid up to 1976. Another part of price structure rationalization aimed at an improvement of methods of wholesale price formation. This included also successive steps towards a mechanism of continuous price up-dating. This had already been partly implemented by narrowing the time-interval in which the prices were being analysed and modified. In 1979 and 1980 two further general wholesale price modifications followed the comprehensive wholesale price reform of 1977. Another step towards price rationalization consisted in an application of so called parametrical patterns in price calculation and formation, which were more rigorously based on comparisons with functional and price parameters of foreign products.

9. The same member was also interested in figures for employment over the last fifteen years in the product categories given on page 4 of the Czechoslovak submission. The figures provided by the Czechoslovak delegation are annexed to this report.

10. Another member of the Working Party was interested to hear what measures were employed by the Czechoslovak authorities to achieve structural progress of the economy. The representative of Czechoslovakia stated that the basic principle of structural adjustment policy in his country was to improve continuously the structures of manufacturing by adapting to technological developments. This meant a shift from a lower level to a higher and medium level of processing, i.e. a slowing-down of more basic material intensive industrial branches like the metallurgical industry, and a move into more sophisticated and research intensive industries. These criteria applied also to the structure of Czechoslovak foreign trade. These targets were, however, strongly influenced by external factors and difficult to achieve in recent years.

11. Another member of the Working Party referring to the tendency for specialization in the Czechoslovak economy was interested to hear more about the importance of the machinery industry compared to the chemical industry. The representative of Czechoslovakia said that the machinery industry contributed about 48 per cent of the total net material product while the share of the chemical industry amounted to about 12 per cent.

12. Another member of the Working Party referring to page 3 of the Czechoslovak submission wanted to know what had been the trade policy instruments used to achieve a growth of the share of imports in national income from 15 to 30 per cent and how could this be combined with the price rationalization policy. The representative of Czechoslovakia replied that no specific trade policy measures had been necessary. The overall economic policy generated import requirements in certain sectors. Thus the increase of the share of imports in national income was the result of overall economic policy.

13. Replying to a question of another member of the Working Party the representative of Czechoslovakia stated that the process of rationalization of the price structure was not yet completed. The price reform of 1980 had only been a first step. Internal wholesale prices were now recalculated each year depending on world market prices. It was also intended to increase the importance of wholesale prices in the decision-making of enterprises.

14. The same member wanted to know, in connection with the law of 1980 governing external economic relations of Czechoslovakia, how the activities of the foreign trade organizations which were legally and financially independent of the government were linked to the external trade plan. The representative of Czechoslovakia said that the external trade plan represented only indicative targets for these organizations. The five-year plans had no rigid structure and could easily be adapted to new developments.

ANNEX

Employment according to branches ('000 persons)

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Agriculture	1262	1178	1024	953
Forestry	104	103	95	94
Manufacture	2480	2632	2712	2779
Construction	521	554	622	641
Transport	192	218	217	224
Communications	43	49	51	53
Trade	460	522	605	664
Other	108	173	188	214

Note: Figures refer only to persons, working in the material sphere of production.