



# Trade and Economic Relations of Czechoslovakia and the USSR in the Period of 1990–1992

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## KEYWORDS:

Soviet Union — Czechoslovakia — Economic relations — Trade — Industry

The relations between the USSR and the Czechoslovak Socialist Republic (Russia and the Czech Republic), in early 1990s, suffered a profound crisis. Bilateral relations were additionally complicated by the debt problem.<sup>1</sup> The changes of foreign policy and foreign trade systems after the breakdown of the former Eastern block took place in an extremely short period of time. The process of adaptation of the USSR and former member states of the socialist community was of unpredictable and often chaotic nature which strongly affected the content and the nature of bilateral ties between the Soviet Union and Czechoslovakia (Czech and Slovak Federal Republic).

In order to conduct the study, taking in consideration what was the political and internal economy situation in the both countries after 1989,<sup>2</sup> the analysed period had to be divided into two parts and the bilateral cooperation had to be discussed separately, in 1989–1990 and in 1991–1992. In the first of the mentioned periods, the relations between countries featured a considerable proportion of inertia and reference to the previous period, which predetermined a higher degree of intensity thereof. While the second of the mentioned periods was characterized by an accelerated pace of recession of the cooperation level, and often by artificial liquidation of the dependence of Czechoslovakia on the USSR, and by the transition to new, market conditions of cooperation.

The revelation of the subject of the paper became possible through general scientific methods of research: analysis, synthesis, generalization, specificity, historicism, and dialectic method.

The goal of this study was the analysis of trade and economic relations between Czechoslovakia and the USSR (Russia), the reasons of decline and the consequences for the both countries. According to the mentioned goals and objectives, the following

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1 Main Tendencies in Relations between Russia and Countries of the Central and East Europe, I.I. Orlik (ed.), Moscow 2015, 426 p.

2 The Minister of Finance of the Czech and Slovak Federal Republic Václav Klaus, spoke of the importance of relations with the USSR in the following way: “Immediate interests are now forcing post-communist countries, in respect of the USSR, to be guided by the principle ‘save yourself if you can!’...” *Hospodářské noviny* 3, 1992, no. 222.

tasks of the study were determined: to determine the role of the political component in the development of economic relations between the two countries; to analyse the economic cooperation of the USSR/Russia and Czechoslovakia in the specified period; to determine the advantages and disadvantages of the cooperation for the both countries.



## ECONOMIC COOPERATION BETWEEN THE SOVIET UNION AND THE CZECH AND SLOVAK FEDERAL REPUBLIC

*The influence of foreign policy and internal policy events on bilateral trade and economic relations in the period of 1989–1992:* The political and military situation in Europe after 1989 was predetermined by the continuing transformation of socio-political, economic and military structures in Central and Eastern Europe,<sup>3</sup> as well as the liquidation of dependency of the states of the former Soviet Block from the Soviet Union, the expansion of influence of the states of West Europe and the USA, the end of the Cold War, and the change of the nature of the cooperation between the two superpowers. The discredit of socialist ideas, the failure to construct a “real socialism” and the breakdown of the Soviet military clock resulted in strengthening the positions of the West to the prejudice of Soviet interests.<sup>4</sup>

Based on the comprehension of the new international situation, the nature of bilateral cooperation was modified.<sup>5</sup> In early 1990s, a decisive, for both Czechoslovak Socialist Republic and the Soviet Union, coincidence of several vectors of negative impacts on the system of bilateral relations of as much as three categories of factors took place. In the totality, they significantly impacted and sharply decreased the attractiveness of partners for each other and their interest in maintaining a high-intensity of economic interrelations. Those factors have to be divided into three groups.<sup>6</sup>

The first group of factors included a number of prerequisites connected with the “ancestral” shortcomings of the socialist system of labour differentiation, which had reached a high point of development in the late 1980s and were the reasons of an acute internal crisis of the cooperation between the USSR with Czechoslovakia and other former member states of the Socialist Block. The decision by the leadership of the USSR and Czechoslovakia to adopt new rules of trade and principles of settlements starting from January 1991,<sup>7</sup> which contained the refusal to use the clearing

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3 Anders Oslund, *Shock Therapy in East Europe and Russia*, M. 1994, p. 88.

4 For more details, please refer to Zbigniew Brzezinski, *Volba. Globální nadvláda nebo globální vedení*, Prague 2004, C. 32.

5 Jaroslav Fingerland, *Rozpad trhu RVHP a transformace československé ekonomiky*, Prague 1991, p. 3.

6 Egor Timurovich Gaidar, *Transition Economy, The Sketch-Book of the Economic Policy of Post-Communist Russia. 1991–1997*, M. P. 1988, p. 81; Alexandr Nekipelov, Igor Orlik, *CEE in the Second Half of the 20th Century*, Vol. 2., M. 2002, p. 300.

7 The Treaty between the Government of the Government of the Czech and Slovak Federative Republic and the Government of the Union of Soviet Socialist Republics on the Tran-



system, and the transition to settlements in freely convertible currency (FCC), has to be included here. Within the frames of the first group which includes “objective” factors of the decline in mutual cooperation, also, the negative impact of the disequilibrium in the balance of trade attributable to the change in oil price, as well as the debt of the USSR,<sup>8</sup> which, in 1990, soared to 1.8 billion of transferable roubles,<sup>9</sup> have to be mentioned.

The second group of negative factors is connected with the process of socio-economic and political transformation in the Czech and Slovak Federal Republic.<sup>10</sup> The transition to democracy and market economy began in Czechoslovakia earlier than in the USSR. The non-synchronism of those processes resulted in the fact that the forming market economy was contradictory to the Command and Administration System in the USSR.

In consequence, the Soviet internal economic mechanism hampered the efforts to reform the system, both in bilateral relations and within the frames of the Council for Mutual Economic Assistance.<sup>11</sup> The same group of factors includes the impact of the economic transition.

On the one hand, the successful implementation of transit reforms in Czechoslovakia allowed preserving a peaceful internal political situation based on low inflation rate, unemployment rate, situation on the internal market, relatively low decrease in wages and standard of living of the population. On the other hand, hyperinflation, soaring corruption and organized crime, huge internal and foreign public debt, sharp decrease in standard of living, and generalized shortages caused by the erosion of the old economic mechanism, were distinctive features of the situation in the Soviet Union in that period.<sup>12</sup>

The internal economic situation in the Soviet Union, which formed in the early 1990s, is attributed to the third group of factors which had negative impact on bilateral relations between the USSR and the CSFR. The perestroika resulted for the USSR in a most severe and grave crisis since the times of WWII. The scale of the industrial recession and of the decline of standard of living was comparable to the consequences of the civil war; throughout perceived sense of despair and deceit was the evidence

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sit to New Terms of Trade and Economic Ties between the Czechoslovak Federative Republic and the USSR is meant.

8 Alojz Neustadt, *Problém propojení světových cen s vnitřními a kontraktními cenami vzájemného obchodu zemí RVHP*, Finance a úvěr 40, 1990, p. 523.

9 Parliament of the ČSFR. *Zpráva o hospodářské situaci ČSFR a hospodářské politice federální vlády*, března 1991.

10 Andrei Danshin, *Czechia and Slovakia: Shock Therapy or a Gradual Approach?*, Economics and International Relations, 1994, Issue 10, pp. 92–100.

11 Zdeněk Šedivý, *Průběh ekonomické transformace na území bývalého SSSR a důsledky pro ekonomické vztahy s ČSFR*, Prague 1992, p. 8.

12 For more details on the internal politics situation in the USSR, Czechoslovakia and the former Eastern block, please refer to, for example, Peter Longworth, *Dějiny impéria. Sláva a pád ruských říší*, Prague 2008, pp. 286–301; Václav Kotyk, *Vznik, vývoj a rozpad světového bloku*, Prague 2009; David Kotz — Fred Weir, *Russia's Path from Gorbachev to Putin*, London 2009, pp. 78–102.



of a severe spiritual crisis of the Soviet society.<sup>13</sup> Rapidly deepening problems of the national economy<sup>14</sup> were for the first time ever recognized by official government, who published statistical material about the decline in the national income, investments, about the presence of central government budget deficit, shortages of goods at the consumer market, and general decline in standard of living.<sup>15</sup>

Here, the negative impact of the malfunction of internal and foreign trade mechanisms, republican, regional and cooperation ties, and of the arrangement of supply of enterprises with raw materials and materials, which resulted in the stoppage of operation of many production facilities and sectors of industry, which negatively influenced the state of the economy as a whole, and the arrangement and provisions of foreign trade, in particular.<sup>16</sup>

*Trade between the CSFR and the USSR in 1990–1992. The value of Foreign Trade:* The Soviet Union, during the entire period of 1990–1992 continued the one of the main trade partners of Czechoslovakia. In the previous period, 1987–1990, the share of the Soviet Union in the foreign trade of Czechoslovak Socialist Republic varied in the range 30–35% which allowed it to be the fourth-best trade partner of the USSR after the German Democratic Republic, Poland and Bulgaria. That share amounted to 9–10% in the aggregate turnover of goods, 9% of export and 10% of the import into the USSR.

Political events at the verge of 1980s and 1990s resulted in the fact that the share of Czechoslovakia gradually declined: in 1990 it reached 8.6% in goods turnover, 8.3% in export and 8.8% in import of the Soviet Union. At the same time, the gross volume of trade between the USSR and the CSFR declined the same year, as compared to 1989, by 16%, and the distinctive feature of the mutual trade was a more accelerated decline (by 28%) in export of the USSR, as compared to import (by 12%) (Fig. 1). That was connected with the internal economic situation in the USSR: the disintegration of economic structures, interplant and inter-sectorial ties, and decline in purchasing power on behalf of the population and enterprises. Moreover, the decline of the interest in cooperation on behalf of Czechoslovakia due to inability of the USSR to perform its foreign trade obligations and opening of the CSFR economy to foreign manufacturers.<sup>17</sup>

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13 For more details on the crisis in the USSR and the reasons for breakdown thereof, please refer to, for example, Michael Cox, *Rethinking the Soviet Collapse. Sovietology, the Death of Communism and the New Russia*, London — New York 1998; Wisla Suraska, *How the Soviet Union Disappeared. An Essay on Causes of Dissolution*, Durham — London 1998; [online] <http://www.jstor.org/pss/153840>.

14 Stephen Cohen, *The Question of Questions: Why Soviet Union Collapsed*, Sankt Petersburg 2007, p. 120.

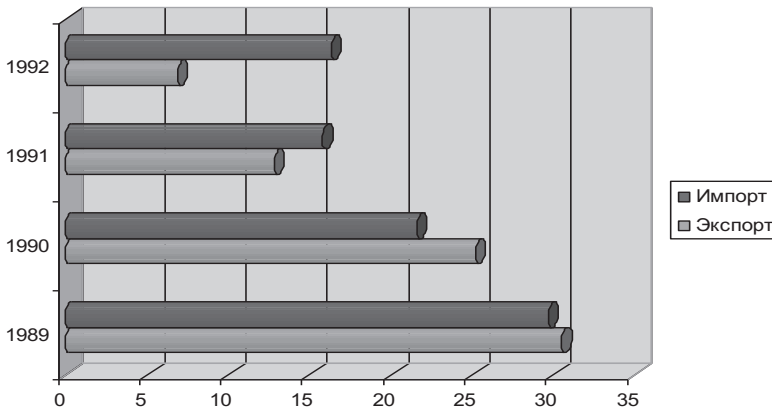
15 Kseniya Myalo, *Russia and the Last Wars of the 20th Century (1989–2000). As Concerned the History of the Fall of the Superpower*, M. 2002, p. 23.

16 Sergei Kolchin, *Eastern Europe: The Peak of Crisis Passed*, *Economics and International Relations*, 1993, Issue 12, p. 56.

17 For more details, please refer to: J. Fingerland, *Rozvoj reformních ekonomik a změny orientace jejich vnějších vztahů*, Prague 1991, p. 20.



**FIG. 1.** Foreign Trade Turnover (rubles mio.)



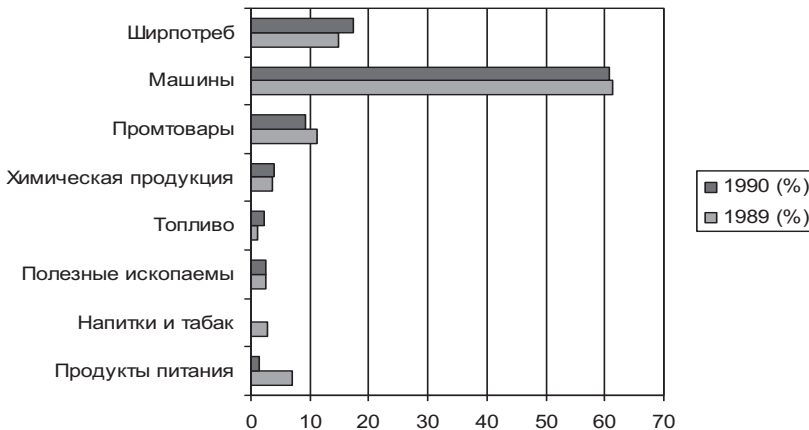
Импорт = Import; Экспорт = Export

Source: Foreign Trade of the USSR in 1987, p. 9. Foreign Trade Ties of the USSR in 1990, pp. 9–10 (own calculations).

*Commodity Composition. Export of Czechoslovakia to the USSR in the Period of 1989–1990:*

The trade pattern between Czechoslovakia and the USSR in the period of 1989–1990 had not changed (Fig. 2): CSSR was the supplier of machine-building and finished products, and the Soviet Union, in turn, supplied Czechoslovakian economy with cheap raw materials and fuel in exchange for finished products, machinery and lathe, which herewith were regarded by the both parties as payment instrument for Soviet mineral resources.

**FIG. 2.** Structure of the Czechoslovakian Export to the USSR



Ширпотреб=Consumer Goods; Машины=Vehicles; Промтовары=General Merchandise  
Химическая продукция=Chemical Products; Топливо=Fuel; Полезные ископаемые=Mineral Resources; Напитки и табак=Drinks and Tobacco; Продукты питания=Food Products  
Source: Statistická ročenka ČSFR, 1991, pp. 480–489 (own calculations).



Accordingly, two thirds of the Czechoslovakian export to the USSR in the mentioned period were lathes, equipment and vehicles, and herewith, the share thereof in the export practically had not changed and was approximately 61%, which was the result of the effect of foreign trade long-term agreements and plans, concluded in the period of 1987–1988. Within the frames of that item, CSFR exported different motor vehicles, for example, passenger cars (decline in 3%), trams (–47%), motor-cycles (–2%), different lathes (–21%), as well as equipment: pumps (–8%), compressors (–4%), etc.

The second, in the size, item of export were supply of consumer goods, the volume of which declined, in that period, by 2%. The relatively high share thereof in the CSFR export was connected with the fact that there was a stably high demand for that of Soviet consumers for traditionally high-quality Czechoslovakian general merchandise and household goods, such as textile, ceramics and glass goods, shoes (–12%), and furniture (–7%).

The next large group of products of Czechoslovakian export was raw materials and semi-finished products, in the first place, metallurgic and chemical semi-finished products, and brown coal, which were supplied to the USSR within the frames of inter-sectorial cooperation. The remaining range of goods, in supplies from Czechoslovakia, had a marginal importance: that means, in the first place, construction materials, spare parts for lathes and equipment, food raw materials and semi-finished products (barley, hop), food products (meat, beer, oil, confectionery), as well as leather products, fancy goods and fashion jewellery.

The decline in the volume of mutual trade was herewith accompanied by destabilization and breakdown of traditional cooperation and industrial ties, and decline in investment, cooperation in the areas of science and technology, and military and technology cooperation. With the dismantling of the trade and economic cooperation in 1990, also, the structural economic crisis in Czechoslovakia was connected, because about 800 thousands of workers were employed at enterprises oriented exclusively on the Soviet market (provided 40% of the export of the CSFR machine building products and 1/3 of consumer goods).<sup>18</sup> That implied, in the situation of political re-orientation of Czechoslovakia in the direction of the West, an accelerated reformation of the operation of a great part of industrial enterprises.

*Commodity Composition. Export of the Soviet Union to Czechoslovakia in 1989–1990:* Czechoslovakia was one of the major consumers of Soviet fuel and energy products and mineral resources (Fig. 3). According to the principle of exchange of vehicles and equipment to raw materials, the very supply of raw materials prevailed in the Soviet export to CSFR.

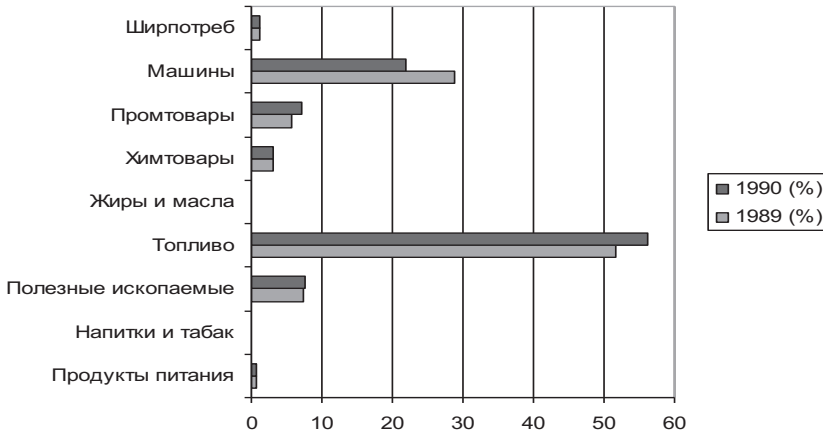
The Soviet export to Czechoslovakia declined in 1990 by about 20%. Mineral resources, and first of all, gas, black coal, iron ore, methanol, synthetic rubber resin, electric power, paper, cotton, cellulose, chrome ore, sulphur, apatite, were the main

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18 A. D. Nekipelov, I. I. Orlik, *CEE in the Second Half of the 20th Century*, Volume 2, M. 2002, p. 316



**FIG. 3.** The Structure of Czechoslovakian Import from the USSR in 1989–1990



Ширпотреб=Consumer Goods; Машины=Vehicles; Промтовары=General Merchandise; Химическая продукция=Chemical Products; Топливо=Fuel; Полезные ископаемые=Mineral Resources; Напитки и табак=Drinks and Tobacco; Продукты питания=Food Products  
Source: Statistická ročenka of ČSFR 1991, pp. 480–489 (own calculations).

items of the export from the USSR.<sup>19</sup> In 1989, supplies of Soviet raw materials and semi-finished products provided for over 50% of Czechoslovakian economy needs, specifically: 93% of needs in oil, 83% of iron ore, 100% of gas, 76% of asbestos, 69% of coal, 100% of iron ore, 100% of cast iron, and 69% of cotton. Herewith, the role of Soviet mineral resources, despite the decline of the volume of supplies of oil (–21%), gas (–6.9%), coal (–1.4%), for example, in 1990,<sup>20</sup> did not decline at all. Cause-effect links of the decline in supplies had to be searched for, in the first instance, in the intra economic areas of the both countries, which were characterized by the process of restructuration of Czechoslovakian industry, as well as in inability of the USSR to perform its foreign economic obligations fully and in time. The selectivity of supplies from the Soviet Union into foreign markets was connected with the necessity of the search for hard currency in order to cover the central government budget deficit and payment of the Soviet government debt.<sup>21</sup>

Along with the decline in supplies of raw materials, a sharp decrease in the share of supplied machine-building products (–20% in 1990) commenced. The reason was the breakdown of regional and inter-sectorial ties in the Soviet economy, as well as

<sup>19</sup> For the physical volume of goods exported from the USSR to the CSFR in 1989–1990, please refer to The Ministry of Foreign Trade of the USSR, Foreign Trade Ties of the USSR in 1990, pp. 191–193.

<sup>20</sup> Own calculations on the basis of the Table titled Foreign Trade of the CSFR with Countries of the Former Soviet Block. Source: Statistická ročenka ČSFR, 1991, p. 495.

<sup>21</sup> Z. Šedivý, Průběh ekonomické transformace na území bývalého SSSR a důsledky pro ekonomické vztahy s ČSFR, Prague 1992, C. 22.



suspension of inter-plant cooperation between Czechoslovakian and Soviet enterprises. The major part of Soviet machine-building export to CSFR in 1990 was transport vehicles (motor vehicles, aircrafts, and helicopters), tractors, harvesters, as well as lathes and other equipment.

Moreover, an important part of the Soviet export was chemical products and semi-finished products, fertilizers, rubber resin, synthetic fibbers, which remained irreplaceable raw materials for Czechoslovakian enterprises in still functioning production links within the frames of Czech-Soviet cooperation.<sup>22</sup> Moreover, food products (alcohol and soft drinks, fish), as well as consumer goods, such as household appliances, music appliances, VCR's, TV's, were still exported from the USSR to CSFR.

It should be mentioned that a sharp decline in supplies of Soviet goods to Czechoslovakia had a negative impact on, first of all, operation of certain enterprises and sectors of CSFR economy, oriented on the Soviet market and tightly linked with the Soviet economy. In turn, many Soviet enterprises were forced to suspend their foreign economy activity or to transit to barter basis of interrelations in result of the commencement of a confused process of division of powers and sources of financing between central and republican authorities, and the production sphere, as well as due to an undeveloped internal currency market and banking system. Those circumstances had an immediate impact on the degradation of the situation in Soviet-Czechoslovakian trade relations.

*Reformation of the Mechanism of the Basis of Trade and Economic Relations between the USSR and the CSFR in 1991–1992:* In the adverse situation conditioned by political and economic factors, the USSR and Czechoslovakia were deeply interested in mutual cooperation as partners. In 1990, the USSR remained a major trade partner of the CSFR, despite the fact that the share thereof in the aggregate commodity circulation of the country declined to approximately 30%. An over 20% decline in the volume of mutual trade in 1990 was a clear signal for governments of the both countries to take measures for the improvement of the situation.

In result, a number of mutual treaties were approved and signed, aimed at intensification of cooperation. What is meant here is, in particular, the Payment Treaty between the Czech and Slovak Federative Republic and the Union of Soviet Socialist Republics dd. December 28, 1991<sup>23</sup> (which, among other things, established the method for determining the value of Czechoslovakian assets in the territory of the USSR and the ways for sale thereof). And also, the Agreement between Foreign Trade Bank of the USSR and Czechoslovakian Trade Bank (CTB), which defined new legal and financial terms and conditions of trade relations, in particular, the cessation of use of transferable rouble as the payment instrument in mutual trade and the transit to settlements in hard currency, and other legal acts. On the basis of adopted instruments, trade relations obtained a three-stage nature.

22 A. D. Nekipelov, I. I. Orlik, *CEE in the Second Half of the 20th Century*, p. 489.

23 The text of the Treaty: The Payment Treaty dd. December 28 1990 года and Protocol to the Payment Treaty dd. July 18 1991; [http://www.mid.ru/bdomp/spd\\_md.nsf/0/457B58E-8D8A2A402C3257922001CF4D6](http://www.mid.ru/bdomp/spd_md.nsf/0/457B58E-8D8A2A402C3257922001CF4D6)





The first stage of commodity turnover was implemented on the basis of indicative lists containing the list of merchandise items, the supply of which was regulated at the central level. The list of so-called interrelated supplies, among which, at the highest level, needs of the counterpart were determined, was compiled with the purpose of diminution of the impact of the shock effect of transit to new conditions of trade. As early as in 1991, these lists provided for over 30% of supplies of mutual trade. The supervision over bilateral trade transactions was carried out by Foreign Trade Bank and CTB, and the agreement which had been signed between the banks presupposed that payments had to be made according to the specially opened account No. 1 in FCC. Indicative lists included the following commodity lines: fuel and raw materials, metals, vehicles and equipment, chemical products, construction materials, as well as foods products.

The second stage of the commodity turnover was supplies of Soviet raw materials, in the first instance, oil. The Soviet party was obliged to supply Czechoslovakia with 7.5 mil. MT of oil, provided that 5.5 mil. MT's would be paid for in FCC without any counter deliveries, and 2 mil. MT's would be paid for by equipment necessary for industrial consumption by Soviet enterprises of oil and gas sectors of industry.

The third stage of the commodity turnover included goods and services, the sales of which were outside of the frames of the agreed indicative lists, that is, on the basis of contracts and agreements concluded on republican, regional and sectorial levels (additional supply of oil, vehicles and equipment, and household appliances). Along with that, from 1991, Soviet licenses for export to Czechoslovakia of 200 commodity lines, as well as for import of raw materials, sports and hunting weapons, and ammunition.

The same purposes of reforming and intensification of bilateral cooperation, as the Inter-Governmental and Payment Treaties of 1990 and 1991 accordingly, were pursued by, already in 1992, the Protocol between the governments of the CSFR and the Russian Federation on Trade and Economic Relations, and the Interbank Agreements.<sup>24</sup> Moreover, these agreements had to guarantee timely payment for delivered Russian mineral resources, fuel, and other export items, such as, for instance, nuclear cell for nuclear power plants, by means of creation of a special system for stimulation of mutual trade.

The essence of that system was that all payments for raw materials supplied from Russia to Czechoslovakia were transferred to two bank accounts in CTB.<sup>25</sup> Herewith, the first account held 38% of the value of deliveries, which were used by the Russian government for payment of the debt of the former USSR in two ways. Firstly, the obligatory re-sale of a part of hard currency to the Czechoslovakian government at a predetermined exchange rate, used for purchase of Czechoslovakian goods. And secondly, the payment of the portion of the debt for already delivered goods the top priority to which was given by the CSFR. The second part, that is, 62%, was trans-

24 Text of the Treaty: Protocol of Trade and Economic Relations between the CSFR and the RF in 1992; <http://www.referent.ru/1/30235>.

25 For a detailed description of this topic, please refer to Z. Šedivý, *Průběh ekonomické transformace na území bývalého SSSR a důsledky pro ekonomické vztahy s ČSFR*, p. 78–81.

ferred to subsidiary accounts of Russian exporters who could use such funds for purchase of Czechoslovakian goods at privileged prices. In cases where such funds were not used by Russian economic entities, they were transferred, in US\$ equivalent, to Russian banks.

For the evaluation of the performance of the measures aimed at the stimulation of the trade and economic interrelations, the analysis of bilateral trade in the mentioned period was conducted.

*The Turnover of Bilateral Trade in the Period of 1991–1992:* The determinative factor of development of trade and economic relation between the USSR and the CSFR in 1991–1992 remained the situation in the Soviet Economy which was characterized by a precipitated downfall of industrial production, including in fuel and power sector, the key one for the Soviet export, as well as by the exacerbation of crisis in the money and credit sector, and rise of inflation, which resulted in a sharp downfall of the currency exchange rate, rise in export prices and stimulation of export damping. In result, the efficiency of foreign trade activity significantly fell, and the state budget had no financial funds for payment of import of goods and the foreign debt.

In 1991, the turnover of bilateral trade,<sup>26</sup> in terms of money, declined by 16%, and the physical form it declined by 10%.<sup>27</sup> The trade between the two countries in the described period was characterized by a significant lag of the dynamics of export to Czechoslovakia from the USSR from import, a high balance of visible trade in 1992 in favor of the USSR/RF (herewith, in the previous year, the balance of visible mutual trade was US\$ 300 mio. in favor of the CSFR). The growth of the trade balance surplus in favor of Russia (US\$ 1.05 billion in 1992) was connected with the rise of prices of mineral resources imported by Czechoslovakia, first of all, oil, transit of the both parties to payments in FCC, economic downturn in the former USSR, inability of Soviet/Russian purchasers of Czechoslovakian products to secure the delivery thereof, as well as lack of financial funds for payments.

In 1992, the turnover of mutual trade continued declining (by 19%, please refer to Fig. 4), which resulted in the loss by the RF of the position of major trade partner of Czechoslovakia. The share of Russia in the trade with the CSFR declined by 14.3% to 11.7%<sup>28</sup> (the second place after the Federal Republic of Germany), mainly due to the decline in Czechoslovakian export by 47%.

The reasons for such a sharp decline in the volume of mutual trade, despite the concluded mutual treaties, were connected with the fact of breakdown of the Soviet Union and the beginning of market reforms in the RF, decline in the demand for Czechoslovakian goods due to inflow of cheaper goods of better quality for Western countries, the end of the process of re-orientation of the foreign trade of the CSFR, as well as with the departure of Czechoslovakian enterprises from the Soviet market. The increase of the RF export by 4% in 1992 was connected, first of all, with preservation of the volume of supplies of Russian gas, as well as with the improvement of

26 The main payment instrument, instead of transferable rubble, became US Dollar.

27 J. Fingerland, Rozpad trhu RVHP a transformace československé ekonomiky, C. 23.

28 Statistická ročenka ČSFR, 1993, pp. 482–489 (own calculations).



terms and conditions of trade with Czechoslovakia associated with the rise of world prices for oil and gas and payment for Russian supplies in FCC.

*Commodity Composition. Czechoslovakian Export to the USSR in 1991–1992:* The composition of the export of the CSFR to the Soviet Union in the period 1991–1992, despite the decline in the volume of delivered goods, had not changed significantly. Main items of export remained the goods of machine-building sector, transport vehicles, consumer goods, chemical products and food products (Table 2).

**TABLE 2.** Commodity Composition of the Export from CSFR to the Soviet Union in 1990–1992.

Commodity Group	1990	1991	1992
Food products	13.59%	4.26%	16.18%
Drinks and tobacco	1.06%	0.21%	0.99%
Mineral resources	0.26%	0.25%	0.31%
Energy products	2.33%	2.22%	4.30%
Chemical products	4.08%	7.46%	4.75%
General merchandise	9.30%	21.34%	11.03%
Machine-building sector products	60.78%	48.03%	47.59%
Consumer goods	17.46%	16.22%	14.85%

Source: own calculations based on data of Statistická ročenka ČSFR, 1993, pp. 480–490, Foreign Economic Ties of the USSR in 1990, pp. 179–193, The Russian Federation in 1992, pp. 16–18.

The share of the volume of exported machine-building sector products and transport vehicles gradually declined as compared to how the value of such deliveries declined.<sup>29</sup> The reduction of prices for the goods of that export items, the rise of competition in the market of the Soviet Union, the rise in the interest of Czechoslovakian enterprises in trade with Western countries, as well as lack of funds in the USSR for payment for contract deliveries, were main reasons for decline of export. The major part of deliveries from the CSFR were processing machines, pumps, compressors, transformers, equipment for the gas sector, trucks, trams, and also flight procedures trainers (please refer to Fig. 5).

The only export item, the share of which increased in that period, were food products, and that was connected with the deterioration of the situation with supplies of food products and of the general economic situation in the USSR (the value and the volume of this export item doubled).<sup>30</sup> The importance of chemical goods, in turn, further declined, by 60% in 1992. The export of the chemistry sector in 1992 was limited to deliveries of organic and synthetic paints, bleachers, polypro-

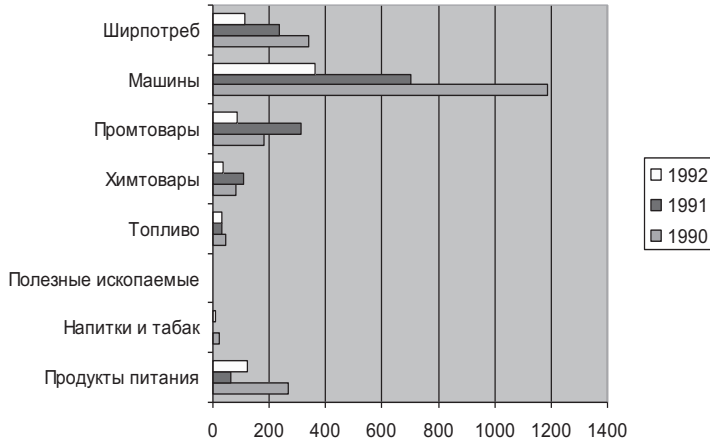
<sup>29</sup> From US\$ 700 mio. in 1991 to US\$ 364 mio. in 1992, that is, from 48% to 47%.

<sup>30</sup> From US\$ 63 mio. to US\$ 123 mio. What is meant here is, first of all, meat, poultry, vegetable oil, fats, powder milk, canned food, sugar, eggs and fruits. Source: Z. Šedivý, Průběh ekonomické transformace na území bývalého SSSR a důsledky pro ekonomické vztahy s ČSFR, C. 20.

pylene, synthetic fibers, lacquers, chemical semi-finished products, disinfectants, as well as of substances for manufacture of synthetic textile.<sup>31</sup>



FIG. 4. Overview of the Structure of Export from the CSFR to the USSR in 1990–1992 (US\$ mil.)



Ширпотреб=Consumer Goods; Машины=Vehicles; Промтовары=General Merchandise

Химическая продукция=Chemical Products; Топливо=Fuel; Полезные ископаемые=Mineral Resources; Напитки и табак=Drinks and Tobacco; Продукты питания=Food Products

Source: own calculations based on data of Statistická ročenka ČSFR, 1993, pp. 480–490; Foreign Economic Ties of the USSR in 1990, pp. 179–193, The Russian Federation in 1992, pp. 16–18.

The data achieved in the course of the analysis of export from the CSFR to the Soviet Union evidence the further aggravation in volume and qualitative composition of the mutual trade associated with breakdown of the CMEA in 1991, with decline in the interest of Czechoslovakian manufacturers, and also with the restructuring of the chemical industry (one of the sources of growth of the turnover in the socialist period in history).

#### *Export of the USSR/RF to Czechoslovakia in 1991–1992.*

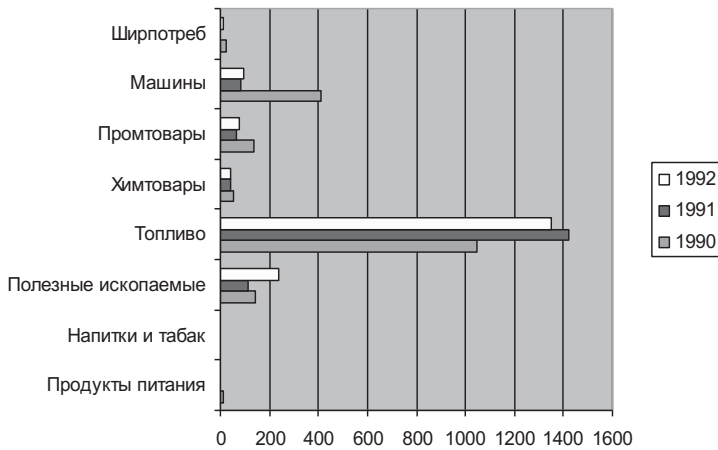
The major part of the Soviet/Russian export (85–90%) were, as in the previous period, raw materials, first of all, oil, natural gas, which were again included to the list of centralized supplies in 1992, as well a nickel, aluminium, copper, resin elastic, coal, and wood materials (Fig. 6).

Czechoslovakia remained the largest, among the countries of the former Socialist Block, purchaser of Russian oil and natural gas, which was promoted by the fact that one third of all deliveries of natural gas to the CSFR were made in payment of its investment participation in development of Yamburgskiy gas field, construction of

<sup>31</sup> For more details, please refer to: Protocol between the Government of the CSFR and the Government of the Russian Federation on Trade and Economic Relations, <http://news-city.info/akty/legislation-06/tekst-pc-trud-duma.htm>.



FIG. 5. Import to the CSFR from the Soviet Union in 1990–1992 (US\$ mio.)



Ширпотреб=Consumer Goods; Машины=Vehicles; Промтовары=General Merchandise; Химическая продукция=Chemical Products; Топливо=Fuel; Полезные ископаемые=Mineral Resources; Напитки и табак=Drinks and Tobacco; Продукты питания=Food Products  
 Source: Statistická ročenka CSFR, 1993, pp. 480–490, Foreign Economic Ties of the USSR in 1990, pp. 179–193, The Russian Federation in 1992, pp. 16–18 (own calculations).

gas pipeline Yamburg-Western border of the former USSR, and of other industrial facilities<sup>32</sup>, as well as payment for transit of gas through its territory.

In 1992, according to the agreement between Czechoslovakia and the Soviet Union, was at the level of 7.5 mil. MT.<sup>33</sup> However, in result of destabilization of the situation in Yugoslavia and the stoppage of pumping Middle East oil through the Adria oil pipeline, the RF delivered, according to the urgently agreed Treaty dd. January 16, 1992, additional 2.5 mil. MT of crude oil.

As it was already mentioned, the conditions of import of natural gas were quite favourable for Czechoslovakia. The deliveries of gas, in 1992, amounted to 13 billion m<sup>3</sup>, of which 5.1 billion m<sup>3</sup> as the payment for transit of gas to countries of Western Europe, 4.4 billion as the payment for investment participation of the CSFR, and also 1.4 billion in exchange for Czechoslovakian finished products. The Russian Federation used natural gas as the payment instrument for delivered lathes and equipment for gas industry (1 billion m<sup>3</sup>), assemblies of distribution transformers (300 mil. m<sup>3</sup>), and chemical products (20 thou. MT of alpha olefins in exchange for 112 mil. m<sup>3</sup> of natural gas). Gas transit conditions also were very beneficial for the CSFR, because exploita-

<sup>32</sup> The obligatory condition of the loan was the equation of each delivered thousand of natural gas to 585 Czechoslovakian crowns (US\$ 1 was equal to 27.8 Czechoslovakian crowns).

<sup>33</sup> For more details, please refer to: Protocol between the Government of the CSFR and the Government of the Russian Federation on Trade and Economic Relations, <http://russia.bestpravo.ru/fed1992/data03/tex15379.htm>.

tion costs and amortization amounted to approximately 25–30% of the total amount of the payment for gas transit.<sup>34</sup>

Among other raw materials, the CR received various ores, wood materials, leather materials, resin elastic, linen fiber, and cotton.

The second most important export item remained machine-building products, mainly, power equipment for nuclear power plants, civil aircrafts, spare parts (for construction of subway), and railroad trains.

The last major item of export from the USSR to Czechoslovakia was consumer goods and general merchandise, in particular, furniture, textile goods, and panels for construction of residential buildings. The share of chemical products (fertilizers, synthetic fibers, acids, cellulose, and ammonia) declined in 1992 to 2–3%. The remaining part of export was comprised by food products and drinks, in the first place, alcohol (Table 3).

**TABLE 3.** Export from the USSR to Czechoslovakia in the Period of 1990–1992.

Commodity Group	1990	1991	1992
Food products	0.73%	0.41%	0.48%
Drinks and tobacco	0.26%	0.18%	0.13%
Mineral resources	7.68%	6.34%	12.99%
Energy products	56.33%	81.21%	74.22%
Fats and oils	0.01%	0.03%	0.05%
Chemical products	3.01%	2.53%	2.41%
General merchandise	7.25%	3.86%	4.16%
Machine-building sector products	22%	4.87%	5.07%
Consumer goods	1.21%	0.5%	0.5%

Source: own calculations based on data of Statistická ročenka ČSFR, 1993, pp. 480–490, Foreign Economic Ties of the USSR in 1990, pp. 179–193, The Russian Federation in 1992, pp. 16–18.

## ADVANTAGES AND DISADVANTAGES OF BILATERAL RELATIONS

In the Socialistic period of bilateral relations, CSSR was one of most important trade partners of the USSR. The structure of mutual trade remained beneficial for the both countries,<sup>35</sup> both in the previous period and after the breakdown of the Soviet Block.

Czechoslovakia was one of the main (in some cases exclusive) suppliers of machine-building products for several sectors: first of all, for consumer industry, food

<sup>34</sup> The Agreement for Transit of Natural Gas Through the Territory of Czechoslovakia to the Western Europe, as well as the Protocol to the Agreement for Transit of Natural Gas Through the Territory of CSSR to the Western Europe. See: <http://docs.pravo.ru/document/view/20020678/>.

<sup>35</sup> Please refer to Statistická ročenka, 1989, pp. 480–491.





industry, metallurgy, transport industry, etc.<sup>36</sup> CSSR/CSFR had intense cooperation with the Soviet Union in the areas of science and technology, exchange of licenses and methods of the flow process. Loans, investment participation of CSSR, as well as the participation of Czechoslovakian professionals in the projects of construction of industrial facilities, improvement of the flow process, and sharing experience allowed the Soviet economy to save millions of roubles, to organize the manufacture of new products in the own territory, to improve the functioning of the transportation and manufacturing infrastructure.<sup>37</sup>

In turn, the cooperation with the Soviet Union was beneficial for Czechoslovakia in terms of supplies of cheap raw materials, which allowed CSSR/CSFR, along the entire socialist period, and in 1990 and 1991, to maintain positive trade balance, and to use the savings for investment into national economy and the social sphere. The distinctive feature of the Soviet-Czechoslovakian cooperation for Czechoslovakia was the unlimited access of the goods manufactured in the CSSR to the Soviet market, maintaining the position of exclusive supplier of a number of goods, and the guarantee of sales on the huge domestic market of the USSR. Also, the participation of the Soviet Union of transport infrastructure and close cooperation in the areas of science and technology,<sup>38</sup> cooperative promotion of goods and services, were beneficial for the economy of Czechoslovakia. Moreover, a significant volume of Soviet orders allowed the CSSR to maintain a high rate of employment and industrial-production growth.<sup>39</sup> A benefit was also connected with a gradual transition to market relations which was marked by entering into new agreements with certain regions of the Soviet Union.<sup>40</sup>

In turn, which were the most pressing issues of economic interrelation after 1990? For Czechoslovakia, that was the disequilibrium of the bilateral trade due to the transit to payments in FCC, limitation of machine-building and other export to the USSR, as well as a high degree of dependence on import of Soviet raw materials. The reason for the disequilibrium of the bilateral trade between the USSR/RF, however, were not the consequence of the problem of “quantitative” nature, because the CSSR had necessary export resources in terms of main export items, that is, the products of machine-building industry and consumer goods, which were possible to sell at the Soviet market. The activity of Czechoslovakia, however, to a great degree depended

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36 J. Fingerland, *Národohospodářský komplex SSSR a československo-sovětská spolupráce*, Prague 1989, pp. 142–144.

37 Archives of the Economy of the State Archives of the RF, Fond 302, Series 2, Unit of Storage 2033, p. 5.

38 The high intensity of the cooperation in the areas of the CSSR and the USSR in the 1980s is evidenced by the data from the National Archives in Prague, Fond of the Central Committee of the Czechoslovakian Communist Party (1984), Series P101/84, Unit of Storage 6103, pp. 1–20.

39 J. Fingerland, *Národohospodářský komplex SSSR*, pp. 146–147.

40 For example, with Tyumen, Novosibirsk, Krasnoyarsk regions, Tatarstan, Bashkortostan, Republic of Komi, Leningrad and Moscow. Also, branches of the trade mission of the CR were opened in Leningrad, Gorky and Krasnodar, as well as showrooms of Czechoslovakian goods, the supply of which was possible to agree on the spot.





on the internal situation in the Soviet Union, the efforts of public authorities to stabilize the situation in national economy and improvement of the conditions of trade (first of all, precise performance of obligations to pay the debt for already delivered goods). The decline in the volume of foreign trade with the USSR was connected with internal processes in the CSFR when determining the directions of trade of the new State, as well as a political disinterest and inability to successfully compete with subsidized Western goods, and also with an underdeveloped banking, insurance and export crediting sectors in the Soviet directions. Weakening the ties with the USSR/RF, coping with dependence on its supplies of raw materials, first of all, oil and gas, was made the national priority in Czechoslovakia.<sup>41</sup>

Stagnation and significant decrease of the intensity of Soviet-Czechoslovakian cooperation had a negative impact on the economy of the USSR, first of all, the part of the national economy which was dependent on deliveries of Czechoslovakian vehicles, equipment, semi-finished products and finished products, which the USSR didn't manage to replace on the account of internal production or import from Western countries. A critical problem for the USSR/RF was the issue of the worn-out state of components and the modernization of previously delivered Czechoslovakian machine-building products, such as motive-power units, electric power locomotives, trams, trucks, various kinds of lathes, etc., adapted to infrastructural and operation features in the USSR.<sup>42</sup>

Common difficulties were the lack, in the government of the both countries, of a conceptual approach to development of economic and trade relations, minimum use of contemporary ways of promoting new and traditional goods to the partner's market underdeveloped institutions of governmental and banking support of the bilateral trade, use of FCC for mutual payments in the conditions of severe shortage thereof, use of the forms of partial or full prepayments, and an underdeveloped credit payment mechanism.<sup>43</sup>

In result of objective and subjective problems of development of trade and economic relations, significant domestic political difficulties connected with the commencement of the process of transformation, process of division of Czechoslovakia, as well as difficult economic situation in Russia, the volume of the bilateral trade between the RF and the Czech Republic, in 1993, fell to a historical minimum,<sup>44</sup> and remained at the same level up to 1999, when the growth thereof was observed for the first time.<sup>45</sup>

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41 Boris Shmelev, *Russia and Central Eastern Europe in the First Half of 1990s.*, M. 1997, pp. 80-81.

42 *Ibid.*, pp. 116-117.

43 S. Kolchin, *Eastern Europe: the Peak of Crisis Passed*, *Economics and International Relations*, 1993, Issue 12, pp. 49-56.

44 In 1993, the export of the Czech Republic to the RF was US\$ 593 (4% of the aggregate export value), and the import was US\$ 1,200 mio. (9% of import). For more details, please refer to: *The Russian Federation in 1994*, p. 16.

45 A significant intensification of mutual trade contacts took place after the formation of the Intergovernmental Commission for Economic, Industrial and Scientific and Technical Cooperation in 2005.



## CONCLUSION

The analysis of Czechoslovakian-Soviet cooperation in the mentioned above period established and proved a significant decrease of the importance of cooperation for the both countries. Decisive factors of decline of bilateral trade and economic interrelations were politically motivated efforts of the new Czechoslovakian elite to minimize the influence of the Soviet Union on Czechoslovakia, dependence on import of Soviet raw materials, orientation in foreign and trade policies on the countries of the West, played their role, as well as negative historical experience, severe domestic economy situation in the USSR and the decision of the CSFR to unilaterally depart from the traditional Soviet trade area.

At the same time, the structure of bilateral trade, in 1989–1992, in the essence, hadn't changed, but the commodity turnover in the same period declined by over 50%. Czechoslovakian export was characterized by an increasing “deindustrialization” which was represented by the decreasing volume and range of deliveries of vehicles and equipment. On the other hand, the structure of the Soviet export was distinguished by a relative stability, the distinctive feature of which was a gradual increase in the share of raw materials on the account of other export items, in the first place, of chemical and machine-building industries, which was connected with the breakup of industrial and sectorial ties after the breakup of the Socialist Commonwealth.

After coping with the problems of the period of “reconstruction” of trade and economic relations between Russia and the Czech Republic, the presence of objective prerequisites for establishing tight cooperation, the increase in the interest of entrepreneur entities and a change of the public opinion in the both countries for the, in respect of establishing close ties, as well as the increase in the number of scientific studies and of conferences dealing with the research of the history of interrelation between the Russian and the Czech states, evidences that there are good opportunities and real prospects for improvement of the Russian-Czech cooperation on a mutually beneficial basis.