

**EZAT SABIR ESMAEEL:**

**PH.D.THESIS ASSESSMENT**

***„ Transition Impact on Foreign Trade Growth in the Czech Republic „***

The main objective of this assessed dissertation is the analysis of the Czech foreign trade development after the economic transition implemented in our country. Mr. Ezat Sabir Esmaeel principal hypothesis is the idea that the economic transformation of the Czech Republic positively influenced the development of the Czech foreign trade during the 1990s and in the first decade of the 21st century. I am able to confirm as the opponent on the basis of the Thesis careful study the implementation of this hypothesis.

The Thesis has the required theoretical value. It is divided into four chapters, the Introduction and the Conclusion. I positively evaluate - among others - the fact that every chapter has been begun by some theoretical introduction followed by the explanation of the analyzed problem typical for the concrete sphere of the Czech Republic environment. The relatively great number of references to positions of Czech and foreign authors is mentioned in every chapter. I consider that author's approach to be the another strenght of Mr. Ezat Sabir Esmaeel Thesis from the methodological point of view. The another one is represented by 37 Tables, a great number of Figures and 7 Appendixes demonstrating convincingly the theoretical level of the Thesis.

The author documents in the Introduction the fact that there existed the smallest private sectors in the communist world in the Czech Republic, employing only about 1.2% of the labour force and producing a small fraction of the national output. The country was evolved in the command system since 1948. It was specialized in the development of the heavy industry, for which the Czech economy did not possess any comparative advantage. I agree with the author's position that the over-employment represented the significant factor of the mentioned command system which led to a waste of human resources. Mr. Ezat Sabir Esmaeel reminds for example, that large not very effective enterprices with more than 1000 employees have had the decisive share in the country economy - over 70% in 1992.

The another important feature of the Czechoslovak economy in the period before 1990 was represented by the fact that after the exhaustion of extensive sources of growth, there have been clear tendencies towards stagnation in the production and to the considerable decline of the economy documented in the Table one. The deformation of the industrial structure of

Czechoslovak economy is documented in page 17 by concrete figures. Analysing the indicated situation Mr.Ezat Sabir Esmaeel came to the conclusion that „the difficult task of the reform path from central plan to market has been redesigning the role of the state. Prior to 1989 state authorities regulated virtually all, not only economic activities in the society. It was obvious at the beginning of the transition that the scope of the state’s activities needed to be heavily reduced but simultaneously its efficiency in providing standard public services needed to be strenghtened“.

Transition process in the Czech economy in the period 1991 - 1992 is discribed in the Thesis very well. Mr.Ezat Sabir Esmaeel explained, first of all, the fact that the process of transition made in the countries of Central and Eastern Europe - including the Czech and Slovak Federal Republic - had been started in the early 1990s. It was oriented predominantly to the decentralization, restructuration as well as to the increasing stability of the whole economy. Nevertheless in diference with other Central and Eastern European countries the Czech policy representation had to transform a highly centralized and mostly state owned economy into one based almost completely on market principles and private ownership. I agree with Mr.Ezat Sabir Esmaeel conclusion that this situation represents one of the Czech Republic

percent, followed by Slovakia over 13 percent, Poland over 10 percent, and the Czech Republic 9 percent,. In difference with these figures in the Czech Republic the global unemployment rate was only 3,5%.

The author of the Doctor Thesis reminds in this sense the fact that in the 1990s there had to be implemented three different kinds of privatization in our country: restitution, small-scale privatization as well as the large-scale privatization. In the beginning of this complicated process one of its direct results was the fact that most of privatized companies and firms owners reduced the unit of labour cost and increased productivity. However, in difference with other CEEC countries the deep transition recession in the 1991-1992 was not accompanied by a corresponding decline in employment in our country what was demonstrated by the mentioned relatively low rate of unemployment. At the end of 1993 the unemployment rate reached only 3.2%.

Moreover, Mr.Ezat Sabir Esmaeel characterizes the necessity to attract foreign investors interest as one of the extremely significant requirements of that time. In the beginning of the 1990s all transitive economies in the Central and Eastern European countries needed to require new capital and new technology, then to increase employment and gross domestic product and finally to improve in the longer run the balance of payment. I agree with Mr.Ezat Sabir Esmaeel conclusion that the significant positive effect of required foreign investments was represented by „the indirect positive effects on the rest of the economy, predominantly on the aggregate demand for domestic and foreign goods increasing as well as increasing of import goods“.In the Czech Republic, FDI have been „a main source of necessary investment for renewing the industrial structure, bringing modern technology, improving management skills, improving the quality of the goods produced in the economy and then facilitating access to the international market competition ..... Empirical data on Czech manufacturing firms in the period 1993-1998 show that firms with foreign participation perform higher levels of productivity and quality of the goods than the domestic firms“.

The another author's conclusion concerns the role of the private sector, predominantly Small and Medium-sized Enterprises, in the Czech economy. Mr.Ezat Sabir Esmaeel stresses that „the economic growth is not possible without private investments. After some periods, connected with the beginning of the transformation, investments started to rise steadily.The highest investment increases have been registered in communications and mining....Textile, food and chemical industries recorded some investment acceleration as well „,

The evaluation of exports and imports playing extremely significant role in the Czech Republic foreign trade was divided by Mr.Ezat Sabir Esmaeel into two basic components: the common macroeconomic background (GDP of home and the real exchange rate) and industry: specific technology, factor supply market structure and barriers to trade. The author underlines the fact that the foreign trade plays the fundamental role in the whole Czech economy during the last twenty years. In the beginning of this period - after the collapse of CMEA and the Soviet market - ,two-thirds of its volume has been carried out with CMEA countries (one-third with the USSR alone). Since that time the composition of Czech foreign trade has been radically changed. As he says „the transition of Czech foreign trade, by diverting its flows from the East to the West, was completed already in 1994“. The orientation to EU market played the decisive role.Due to this positive fact, the Czech Republic share in export of machinery and transport equipment has doubled since 1995.

One of very significant problem solved in the Thesis concerns the privatisation in the Czech Republic.Positions of different theoreticians concerning this problem are explained here.What concerns the positive outcomes of the process, S.Gomulka,for example, identifies following ones :

- Disappearance of shortages as a result of price liberalisation.
- Higher dollar wages and better access to import.
- Better access to foreign technology.
- Improvement in skills.
- Improvement of production composition.
- Increased external creditworthness.

The famous specific feature of the privatization process in the Czech Republic is characterized by Mr.Ezat Sabir Esmaeel in the following words:„The important part of economic reform is voucher privatization started into two schemes: small and large privatization. Public auctions were the main metods applied in small privatization and it was more than 85% of the property, direct sales to predetermined investors, and transfers to municipalities“( page 29).

The analysis made in the chapter Nr. 3 is devoted to the evolution of foreign trade role in the Czech Republic.The author mentions Mr.L. Podkaminer (1998) position that this process divides into three stages:

1. System of Transformation ( 1989 -1994)

2. Catching up ( 1994 - 2010 )

3. Integrated Europe.

#### Stage 1: System Transformation

was characterized predominantly by the huge recession in most of CEECs. As the author says „their economies had to almost may shocks. They lost their traditional export markets“. The change started in 1993 when „the transition economies recovered from the transformation recession,,.

#### Stage 2: Catching up

Per capita GDP was growing in Central European countries during this period. Nevertheless, those countries dependence on the conjuncture of the Western European economies, internal and external imbalances, structural deficits (industry, infrastructure and banking) as well as problems encountered in privatization process continued .

#### Stage 3: Integrated Europe

is characterized by the growing income level of the CEECs that could be similar to that of the EU average at least to that of the poorer EU countries in a relative near future.

As Mr.Ezat Sabir Esmaeel stresses that „this will lead to a strong increase of intra-industry trade“. Czech foreign trade accelerated after the accession of EU. The author underlines that,, real GDP growth, year - on - year, rose to 4.4 % in the first quarter of 2005 thanks mostly to greater gross fixed investment and favourable foreign trade results.... Year - on - year, export growth rose from 13% in the first quarter of 2004 up to 33% in the second quarter, while export growth leap from 11% to 31% over the same period“. The author analyzed several strategic factors influencing the Czech trade structure and dynamics. He came to the conclusion that „in the Czech Republic there were ...changes in endowments of physical and human capital, inflow of FDI, developments in productivity and wages, enterprise pricing policies and the nature of Czech economic competitiveness vis - a - vis the world market. This includes the switching from competition in prices to competition in quality, and the rising role of differentiated products and intra- industry trade“ (page 60).

What concerns the development of the exchange rate and its regime in transition countries, Mr.Ezat Sabir Esmaeel stresses that „in the first stage of the transition process in Central and

Eastern European economies, exchange rate behaviour and associated exchange rate regimes closely monitored... The fundamental task is how the exchange rates themselves evolved during the transition process, because the strength of a currency normally corresponds to the strength of an entire economy. Therefore exchange rates have to be considered as a monetary mirror of a real side of an economy as a whole“ (pages 62,63).

Analyzing the nominal exchange and real exchange rate Mr.Ezat Sabir Esmaeel came to the conclusion that,, in the Czech Republic fixed exchange rate regime was introduced on January 1st 1991, and persisted for more than six years. It was seen by some policy makers and by part of the public as a symbol of the Czech success.However, a worsening macroeconomic situation in the second half of the 1990s, combined with political instability at the beginning of 1997 and with contagious effect from the Asian crisis led to the abandonment of the peg... The mixture of macroeconomic stability with inflation differential led to fast real appreciation....Along with this move, the Czech National Bank adopted in 1998 inflation targeting as a monetary instrument instead of preceeding exchange rate anchor“ (page 64).


Assessing the economic implications of the appreciation Mr.Ezat Sabir Esmaeel reminds the fact that „the recent appreciation of Czech currency exceeds productivity growth... Table 15 shows that the rate of the appreciation experiented by CZK since the end of 2007 was too fast. The net real appreciation and negative impact on expoters' profits it was not valuable, because this development has not caused substantial damage to Czech companies so far, but the risk of defaults of exporters will be gradually increasing “ (page 66).

The third chapter deals with integrating economic methods and the importance of the input - output analysis for foreign trade in the Czech Republic.Mr. Ezat Sabir Esmaeel explains here the significance of econometrics, the essence and importance of the simple regression model as well as of the multiple regression model. The input - output as a simple econometric model for analyzing foreign trade is explained in the second part of this chapter.

The analysis made in the last chapter is devoted to the specification of the model described in the theoretical level in the previous chapter in the conditions of transition process and its impact on the foreign trade of our country with the utilization of integrating econometric methods and the input-output model. The chapter is divided from the methodological point of view into two parts:Regression analysis of Exports and Regression analysis of Imports.Exports and Imports analysis are devoted to exports and imports macroeconomic

variables, exports and imports by sectors and exports and imports by commodity. Both last chapters are written in the good theoretical level.

Evaluating the whole Mr. Ezat Sabir Esmaeel Ph.D. Thesis I am only able to repeat the positive assessments made in the characteristics of individual chapters. Taking this fact into account I recommend to advance the Thesis „*Transition Impact on Foreign Trade Growth in the Czech Republic*„, to the defence and on its basis to award the scientific title Ph.D. to Mr. Ezat Sabir Esmaeel.

  
prof. PhDr. Karel Lacina, DrSc.