

Foreign Trade of the Czech Republic: Are the Trading Partners Democracies or Authoritarian Regimes?

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Abstract: Today, many countries dependent on international trade are struggling. The COVID-19 pandemic has disrupted supply chains, delayed many shipments, and caused a significant economic downturn. As a result of other world events such as military conflicts, the imposition of economic sanctions, etc., many countries are reviewing their trading partners. This paper examines the foreign trade of the Czech Republic, specifically examining the position of exports and imports by democratic and non-democratic regimes. The analysis finds that the Czech Republic's export orientation differs from its import orientation. Approximately 93% of the value of the Czech Republic's exports goes to democratic countries. In contrast, the Czech Republic imports only 70% of the value of imports from these democratic countries. More than 26% of the Czech Republic's imports come from authoritarian regimes. However, these imports are not so easily substitutable – they are imports of raw materials (e.g. oil and natural gas) but also of consumer goods, the production of which is cheaper in authoritarian states. Given the Czech Republic's inland location and its anchorage in the center of Europe, this situation cannot be expected to change in future years.

Keywords: trade; export; import; democracy; development

JEL Classification: F14; F18

1. Introduction

The development of trade and globalization is a typical trend of the developed world in the 20th century and today. International trade is a key element of the global economy, linking nations and enabling the free flow of goods, services, and capital between different countries. This form of trade is not only about the exchange of physical products but also about the sharing of know-how, technology, and cultural influences. In today's world, where economies are increasingly interconnected, international trade is crucial to the growth and prosperity of nations (de Soyres & Gaillard, 2022). It provides opportunities for the development and diversification of economies, promotes innovation, and creates new jobs.

The importance of international trade cannot be overemphasized, as it allows countries to specialize in the production of those products and services in which they have a comparative advantage (Seyoum, 2007). This leads to more efficient production and use of resources, resulting in increased productivity and competitiveness. International trade also brings a diversity of products to the market, increasing consumer choice and encouraging innovation. With globalization and the increasing interconnectedness of the world's economies, international trade is becoming an integral part of the strategic planning of governments and companies, influencing economic, social, and political developments around the world.

For Western states, democratic values have become not only a fundamental pillar of domestic politics but also a key element in their international relations and business interactions. Western states emphasize democracy, the rule of law, human rights, and freedom as an integral part of their identity (Gabrielsson, 2022). These values are not only a rhetorical element but also function as filters in international trade (Yu, 2010). Western societies, including companies, often prefer trading partners that respect democratic norms and human rights. This may influence trade decisions because Western states tend to work with regimes that share their values and norms.

In some cases, the democratic values of Western states have led to restrictions on trade relations with authoritarian regimes. These countries may be subject to sanctions or restrictions on access to Western markets because they failed to respect human rights, lack democratic institutions, or violate the rule of law (Doornich & Raspotnik, 2020). These measures are intended to promote respect for democratic values and put pressure on authoritarian regimes to adopt democratic reforms. In this way, international trade becomes a tool to promote the spread of democratic values and contributes to shaping a global environment based on democracy, the rule of law, and human rights.

An example is the current state of trade between the West and the Russian Federation (Wang, 2015). As a result of the conflict in eastern Ukraine, most European countries have moved away from trade with the Russian Federation. A frequently cited argument is the failure to uphold democratic and Western values and the waging of war with another European country. It is often mentioned by Western politicians that, precisely because trade with Russia is being restricted, the flow of money from the West to Russia will also be restricted, and this will also reduce the Russian resources that are spent on financing war operations. The import of oil and gas from Russia, on which the countries of Eastern Europe in particular, but also Germany, were and still are dependent, is being replaced by these countries by importing these commodities from other countries. Examples include contracts from Norway, Qatar, Saudi Arabia and the United States (Kovanda, 2023). The Czech Republic is no exception to this. This article focuses on the orientation of Czech foreign trade, namely whether this trade is oriented towards countries that share the same democratic values as the Czech Republic.

2. Literature Review

Since its establishment in 1993, the Czech Republic has undergone significant developments in the sphere of foreign trade. After the fall of communism and the advent of a market economy, the Czech Republic gradually began to open its borders to international trade. At the beginning of the 21st century, the Czech Republic was integrated into the European Union, which has affected the dynamics of its foreign trade (Akhvlediani & Śledziowska, 2017). EU membership has allowed Czech firms easier access to the European market and has also provided support for the modernization and harmonization of trade practices with other Member States.

Over time, the Czech Republic has diversified its trading partners and is trying to expand its economic ties with different regions of the world. The Czech Republic's foreign trade has also been affected by global events such as economic crises, pandemics, or trade

conflicts, which have affected the country's trade flows and trade strategies (Chetverikova, 2021). At the same time, the Czech Republic has sought to promote innovation and modernization of its industry to maintain its international competitiveness while strengthening its role in the global trading environment.

In its foreign trade policy, the Czech Republic often faces a dilemma in which it must balance economic and democratic interests. Even though democratic values are a firm part of the Czech identity (Hanley, 2014), trade relations with some authoritarian regimes are not excluded; for example, the aforementioned trade with the Russian Federation, China, or Middle Eastern countries (Ministerstvo průmyslu a obchodu, 2024). We can therefore conclude that the Czech Republic engages in trade with various countries where democratic norms are not fully respected, due to the diversification of trading partners and economic interests.

This situation often raises discussions about the ethical aspects of foreign trade, where one has to consider the impact that economic cooperation can have on strengthening or weakening democratic processes in a given country. At the same time, however, the Czech Republic applies certain mechanisms and conditions to promote respect for fundamental human rights in its trade interactions with authoritarian regimes and, where appropriate, to create pressure for improved democratic standards in partner countries. These mechanisms are most often in the form of economic sanctions, but they also significantly affect Czech businesses (Hinčica et al., 2020).

The Czech Republic applies sanctions by the common European policy within the European Union. Sanctions are an instrument that enables the EU to respond to various international situations, such as human rights violations, threats to peace, or other forms of illegitimate behavior, particularly by third countries. The EU's common sanctions are designed to send a strong signal that can have an impact on a country's policy. This promotes respect for international standards and values that are key to the EU and its Member States. The application of sanctions thus creates an environment in which democratic values can be promoted while strengthening the EU's common security policy (Drapkin et al., 2022).

The imposition of trade sanctions can have consequences that include the need to seek alternative trading partners. When relations with certain countries are restricted or disrupted due to sanctions, the Czech Republic may turn to other regions or countries to diversify its trade portfolio. Finding new trading partners can be a strategic step to minimize the impact of sanctions on the domestic economy and maintain trade stability (Doornich & Raspotnik, 2020).

In this context, the Czech Republic can look for new opportunities in cooperation with economically dynamic regions and countries where sanctions are not applied. In this way, it can expand its trade links and minimize the risks associated with unilateral sanctions. At the same time, this diversification can contribute to strengthening the overall resilience of the Czech economy and move it towards a more sustainable business model. The search for new trading partners can thus be a strategic response to the challenges arising from international political and economic changes.

3. Methodology

This article deals with the issue of the Czech Republic's foreign trade in the current period, which is affected by dynamic global developments related to security, energy problems, and environmental challenges. The paper aims to analyze the Czech Republic's foreign trade and to answer the question of whether the Czech Republic is currently focused on trade with democratic states that uphold similar democratic values and principles, or whether, as a result of sanctions policy, it is merely "driving a wedge" – i.e. whether trade with some authoritarian regimes is being replaced by trade with other authoritarian states.

The data source for the analysis is the data available on the websites of official government institutions – the Ministry of Industry and Trade and the Czech Statistical Office of the Czech Republic. For international comparison, secondary data published by the European Statistical Office are used. Based on the data, the position of the Czech Republic is analyzed, both within the European Union as a whole and within the V4 countries. Subsequently, the foreign trade of the Czech Republic is examined - specifically in terms of exports and imports. Not only aggregated values (total volume of imports and exports) are analyzed, but also partial values, i.e. trade with the most important trading partners of the Czech Republic.

4. Results

4.1. *European Trade Development*

The development of European foreign trade has a rich history, dating back to the trade routes of medieval merchants and voyages of discovery. However, the key moments for the modern shape of European foreign trade were the founding steps of the European Community and later the European Union. Gradually, the single market was created, allowing the free movement of goods, services, capital and workers.

Another key milestone was the introduction of the euro in some EU countries, which facilitated trade and increased economic stability. The opening up of new markets in Central and Eastern Europe after the fall of the Iron Curtain brought another dimension to the growth of European foreign trade. Over time, the EU has become one of the biggest players in the world market.

In recent years, international trade within the European Union has developed very dynamically. The total volume of exports from 2011 to 2022 amounted to EUR 57 884.2 billion, while the volume of imports amounted to EUR 55 883.4 billion. Except 2022, the European Union's trade balance has been positive (an average of EUR 2 090.1 billion per year). Table 1 shows the values of exports and imports for the whole of the European Union over the period under review:

The largest economy in the European Union, and also the largest trading "power", is Germany, which accounted for 22.2% of total EU trade in 2022. The industrialized Germany is followed, perhaps somewhat surprisingly, by the Netherlands, given its geographic location and major trading crossroads. Other major trading economies include Italy, Belgium, France, Spain, Poland and the Czech Republic (see Figure 1).

Table 1. Evolution of EU exports and imports 2011-2022 (billion euro) (Eurostat, 2024)

Total EU	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Export	4,013.8	4,155.8	4,168.3	4,256.2	4,444.8	4,491.0	4,839.2	5,074.0	5,203.6	4,788.2	5,623.9	6,825.6
Import	3,997.5	4,027.3	3,961.5	4,026.2	4,156.1	4,177.2	4,569.1	4,870.9	4,952.4	4,510.4	5,510.2	7,124.5

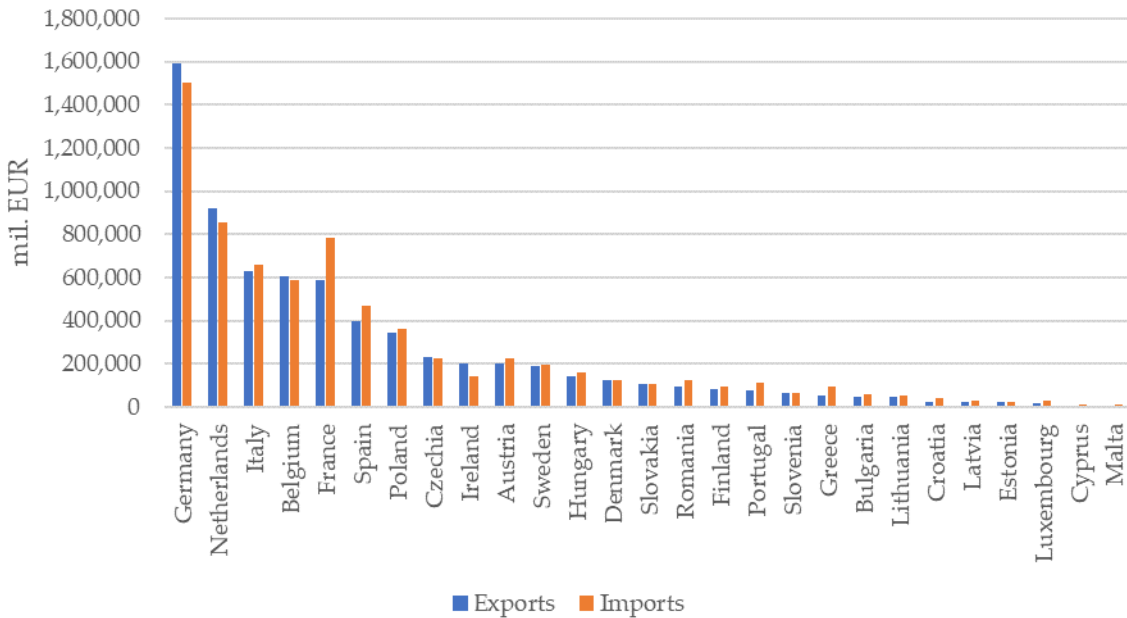


Figure 1. Exports and imports of EU countries in 2022 in million euro (Eurostat, 2024)

Malta, Cyprus, Luxembourg, and the Baltic States (Estonia, Latvia, and Lithuania) are at the other end of the list in terms of size (population, area). Thus, in general, it could be stated that the overall development and position of the European Union's international trade in goods is in the hands of a few major and mainly Western economies.

These Western economies also play a large part in determining the political direction of the European Union as a whole, while the smaller and less economically developed countries of Eastern Europe are essentially adopting this direction, although their trade has historically been oriented in a different direction – e.g. they are former satellites of the Eastern bloc (USSR) with very strong links to the current Russian Federation, for example in the supply of energy raw materials – oil and gas.

4.2. Trade Position of the Visegrad Countries

A group of Central European countries that are linked by a significant part of their history is the so-called Visegrad Group (V4). It consists of the Czech Republic, Poland, Slovakia and Hungary. These countries are known for their dynamic growth and transition to market economies after the collapse of the USSR. Joint efforts to transform their economies and institutional reforms have led to the modernization and opening of these countries to foreign investment and trade. In recent years, the V4 countries have become attractive destinations for investors in the automotive, manufacturing, and services sectors. Overall, the

V4 countries share strong historical and cultural ties, which strengthens them in their efforts to develop together and cooperate in various areas (Strnad, 2019).

The V4 countries account for about 10-12% of the EU's international trade (in 2022, this share was 11.99%). All these countries have also seen similar developments in international trade in recent years. The gradual growth in the volume of exported and imported goods is mainly due to the size of these countries (see Figure 2). Following the start of the COVID-19 pandemic, the volume of traded goods fell by an average of 4.25% but has been followed by significant growth since 2021 - e.g. the volume of exports increased by 14.30% in the case of the Czech Republic in 2021, 13.74% for Hungary, 16.25% for Slovakia and even 20.47% for Poland.

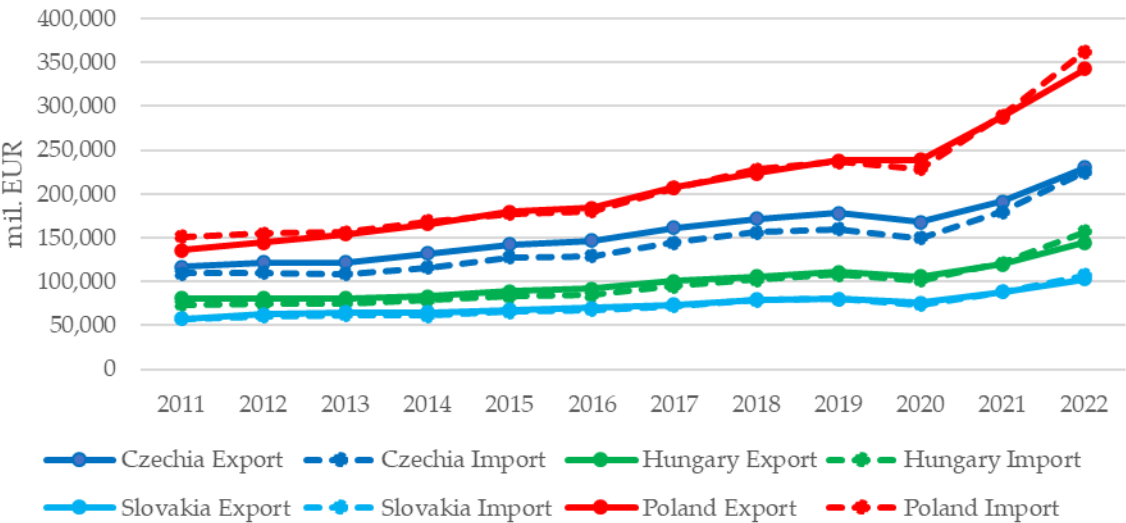


Figure 2. Development of foreign trade of V4 countries between 2011-2022 in million euro (Eurostat, 2024)

This dynamic growth continued in 2022, but rather than economic growth, the increase in the volume of foreign trade in these countries was due to rising prices (e.g. in the Czech Republic, the annual inflation rate was 15.1% in 2022). The increase in the volume of foreign trade therefore, at first sight, supports the idea of globalization and economic growth, but this growth is very strongly offset by the already mentioned higher prices.

4.3. Foreign Trade Orientation of the Czech Republic

One of the factors that is causing the rising price level is the sanctioning policies in some countries due to their own policies. An example of this is the extensive system of sanctions imposed after 2014 on the Russian Federation, which is, however, a leading importer of raw materials to the European Union countries and, above all, of labor to the V4 countries. In situations where economic sanctions are imposed, democratic countries often try to find alternative trading partners to minimize the impact of sanctions on their own economies. This includes finding new markets, expanding trade links with other countries, or promoting domestic production and innovation.

In seeking alternative trading partners, democratic countries may prefer to work with other democratic and human rights-respecting countries, thereby promoting the values they

consider important. These efforts can be part of broader efforts to promote democracy, human rights, and the rule of law internationally.

The Czech Republic's foreign trade has long been oriented within the European Union, exporting approximately 52.82% of its production for export to neighboring countries (Germany, Poland, Slovakia, Austria). Other important export patrons of the Czech Republic include France, Italy, the Netherlands and the United Kingdom. Imports to the Czech Republic are more differentiated also among countries outside the European Union. In addition to the V4 countries, Germany and other large European economies, imports from China and Russia are important for the Czech Republic. Both of these countries are authoritarian regimes according to the democracy index. The following Table 2 shows the top 20 trade partners of the Czech Republic:

Table 2. The most important foreign trade partners of the Czech Republic in 2022 (Czech Statistical Office, 2024; Economist Intelligence, 2023; Ministerstvo průmyslu a obchodu, 2024)

Country	Import mil. EUR	Export mil. EUR	Import share	Export share	Index of democracy	Type of democracy
Germany	44.37	75.22	19.95%	32.87%	8.80	Full democracy
China	42.41	2.59	19.06%	1.13%	1.94	Authoritarian regime
Poland	17.93	16.27	8.06%	7.11%	7.04	Flawed democracy
Russian Federation	10.82	1.45	4.86%	0.63%	2.28	Authoritarian regime
Slovakia	9.36	19.17	4.21%	8.37%	7.07	Flawed democracy
Italy	8.57	9.37	3.85%	4.09%	7.69	Flawed democracy
Netherlands	6.18	8.31	2.78%	3.63%	9.00	Full democracy
France	6.12	10.57	2.75%	4.62%	8.07	Full democracy
Austria	6.01	10.23	2.70%	4.47%	8.20	Full democracy
USA	5.86	5.83	2.64%	2.55%	7.85	Flawed democracy
Hungary	5.15	7.82	2.32%	3.42%	6.64	Flawed democracy
South Korea	4.31	0.53	1.94%	0.23%	8.03	Full democracy
Japan	3.78	1.21	1.70%	0.53%	8.33	Full democracy
Spain	3.61	6.00	1.62%	2.62%	8.07	Full democracy
Belgium	3.53	5.04	1.59%	2.20%	7.64	Flawed democracy
United Kingdom	3.48	8.19	1.57%	3.58%	8.28	Full democracy
Romania	2.65	3.56	1.19%	1.55%	6.45	Flawed democracy
Turkiye	2.44	2.54	1.10%	1.11%	4.35	Hybrid regime
Vietnam	2.16	0.10	0.97%	0.05%	2.73	Authoritarian regime
Switzerland	2.03	3.32	0.91%	1.45%	9.14	Full democracy
Others	31.68	31.55	14.24%	13.79%		

Based on these data, it can be concluded that the main trading partners of the Czech Republic are mainly democratic countries. The Czech Republic's exports are mostly oriented to the countries of the European Union, and thus to countries with higher values of the democracy index. In terms of imports to the Czech Republic, however, the situation is

somewhat different. Total imports from democratic countries account for approximately 70%, but the other 26.39% are from countries with authoritarian governments (see Table 3). These are mainly the aforementioned Russia and China. Although the Russian Federation is the leading importer of oil, gas, and other essential raw materials (e.g. fertilizers) to the countries of Eastern Europe, despite the sanctions imposed, the tendency of these countries is not to restrict trade with this country at all.

Table 3. Trading partners of the Czech Republic in 2022 by level of democracy

Type of democracy	Share of import	Share of export
Full democracies	40.15%	59.09%
Flawed democracies	29.88%	34.37%
Authoritarian regimes	26.39%	3.41%
Hybrid regimes	3.38%	3.06%
No data available	0.21%	0.07%
Total	100.00%	100.00%

Another interesting fact is the fact that European countries, including the Czech Republic, are looking for alternative suppliers of gas and oil in the Middle East, e.g. in countries such as Qatar or Saudi Arabia. Both of these Arab countries, however, are also authoritarian states according to the democracy index, and the values of the democracy index for these countries are practically identical to those of Russia or China. So, the question here is whether the restrictions and sanctions against some states are really the result of the economic struggle of Western states to promote democracy and other related values, or whether these actions are motivated by other political ideas.

5. Discussion and Conclusion

To achieve positive economic development in the future, it is practically necessary to emphasize the development of international trade and to remove partial protectionist measures and barriers (Abboushi, 2010). As a result, it is then possible to concentrate production in countries and regions where it is more efficient, cheaper, or perhaps leads to higher value added. The allocation of factors of production in an efficient manner can then also lead to an increase in GDP and living standards of the population (Bashmakov, 2019).

Recently, the modern trend has been to subordinate economic decisions to political issues. Despite economic expediency, trade contacts with some countries whose political governance does not match that advocated or preferred by their trading partners are being curtailed (Gould-Davies, 2020). Examples include the Western world and its sanctions policies towards Asian countries in particular – e.g. China, Russia, and Middle Eastern countries. The cheap and technologically advanced production of Chinese products is becoming undesirable over time, as is the promotion of trade with the Russian Federation and the import of energy (Rühl, 2022) in Western countries, even though these imports are made using an already established distribution network that is much more environmentally friendly than, for example, the import of liquefied gas from the United States (Evropa v datech, 2024).

What is also striking is that the apparent trade orientation of these Western countries towards other democratic countries is not respected. This can be referred to as a 'double standard'. While some authoritarian countries are sanctioned and trade restriction tendencies are enforced, other authoritarian countries (e.g. Qatar, Saudi Arabia) are happily negotiated with by Western officials to increase trade (Export mag, 2024). Even though Czech foreign trade is export-oriented mainly to the democratic countries of the European Union, it would be advisable for positive economic development and growth to also focus on finding new trading partners. Given that in some cases there is trade with authoritarian regimes without any restrictions, it would be worth considering whether political views should be set aside and what is economically beneficial for each country should be promoted. Perhaps the political establishment would then save itself the trouble of finding other solutions - for example, how to combat the carbon emissions caused by the extremely un-eco-friendly shipping of 'green' liquefied gas across half the planet.

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