

# The Czech Republic: A Successful Transition

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The Czech Republic, established on 1 January 1993 as one of the two successor states of the former Czechoslovakia, earned a reputation during its first year of independence as an island of relative political stability and a leader in introducing market-oriented reforms in Eastern Europe. The country adopted a new constitutional system and pressed forward with an ambitious privatization program while maintaining low unemployment and inflation rates. However, there were also setbacks. Difficult negotiations with Slovakia over dividing former federal property continued throughout 1993. The abolition of the common Czech-Slovak currency in February adversely affected Czech-Slovak trade and temporarily reversed positive economic trends. A number of unresolved constitutional questions caused friction between Czech government coalition parties. And there was little or no improvement in the state of the environment.

## Building a New Constitutional Order

The new country's most pressing task in early 1993 was to establish important institutions required by the Czech Constitution adopted in December 1992, such as the Constitutional Court and the upper chamber of the parliament (the Senate), and to elect a new president. On 26 January 1993 the Czech parliament elected Vaclav Havel, the former president of Czechoslovakia, to the post of president of the Czech Republic. However, before

his election a number of deputies from various parties expressed reservations about Havel's past political achievements, criticizing him especially for supporting the dissolution of Czechoslovakia and for what they perceived as his soft stand on settling scores with former Communists. The televised election proceedings turned into a painful spectacle during which deputies of the extreme right-wing Republican Party repeatedly slandered Havel.

In February the lower chamber of the parliament rejected a constitutional amendment whereby Czech deputies from the former Federal Assembly would have made up the new Senate. This was the second, and final, rejection of the amendment (the first had occurred in December 1992), and it caused a constitutional imbroglio. Since most political parties at the same time rejected the idea of holding elections to the Senate, the seats in the parliament's upper chamber remained unfilled throughout the rest of 1993. Some parties eventually proposed that the Senate be abolished and its powers distributed among other institutions, but this proposal was blocked by government parties, which argued that elections to the Senate could be held in 1994 at the same time as local government elections. Since the constitution says that the Senate, unlike the lower chamber, cannot be dissolved and that the lower chamber substitutes for the Senate until the latter is formed, the lower chamber, in blocking the formation of the Senate, not only failed to establish an important constitutional

check on its legislative activities but also prolonged the period in which it could not itself be dissolved. Constitutional experts repeatedly warned that such a situation was potentially dangerous; should the current government fall and should the parliament be unable to approve a new government, the president would not be able to dissolve the lower chamber and call new elections.

In June the parliament voted to establish the Constitutional Court and the Supreme Control Office, an independent body charged with auditing the government's finances. In October the parliament abolished the system of state prosecutors that had originated in the communist period and replaced the prosecutors with state attorneys, who would represent the state in the courts of law as public plaintiffs.

In general, the constitutional system of the new country appears to be free of the legal traps that almost completely paralyzed Czechoslovakia. The Czech Republic is a parliamentary democracy in which the executive branch is headed by the prime minister and the government, while the president plays a mainly ceremonial role. The president does, however, have some important powers; he can veto laws passed by the parliament, for example (although it can override the veto), and he can dissolve the lower chamber if certain conditions are met. The role of the judiciary in the system of checks and balances was significantly strengthened with the establishment of the Constitutional Court. Moreover, the

Czech Republic retained the system of administrative courts established in 1991. The role of these courts is to examine the legality of decisions made by the state administration when those decisions are appealed by citizens.

### The Political Scene

The popularity of the major political parties remained unchanged throughout 1993. In various opinion polls the Civic Democratic Party (CDP) of Prime Minister Vaclav Klaus, the chief proponent of rapid economic reform, repeatedly won the support of more than 30% of the respondents. The popularity of its coalition allies (the Christian Democratic Union—People's Party, the Civic Democratic Alliance, and the Christian Democratic Party) also remained stable but was significantly less than that of the CDP. On the left side of the political spectrum support for the Czech Social Democratic Party increased, stabilizing at around 13%; but it appeared that the additional support had come mainly from members of the Communist Party of Bohemia and Moravia, who were disenchanted with their party. The Communists were the only sizable political group in the Czech Republic to experience a major political upheaval. At a congress in July reform-minded members of the party split away from its neo-Stalinist core to establish the noncommunist Party of the Democratic Left.

Opinion polls throughout the year confirmed that both the president and the government enjoyed high levels of public confidence (around 60%) but that trust in the parliament was steadily declining. Only about 23% of Czechs had confidence in the parliament at the end of 1993, compared with more than 50% in December 1992. Parliamentary leaders attempted to explain this decline by emphasizing the public's unfamiliarity with parliamentary democracy; however, opinion polls indicated that the increasingly negative attitude toward the parliament stemmed mainly from several highly unpopular moves

## Czech Republic

### Population

10,302,000

### Area

78,864 square kilometers

### Capital and its population\*

Prague, 1,215,000

### Major ethnic groups

Czechs, 94%; Slovaks, 4%; Romanians, 2%

### Major religions

Roman Catholicism, Protestantism

### President

Vaclav Havel (born 5 October 1936)

### Prime minister

Vaclav Klaus (born 19 June 1941)

### History

The medieval Czech state was absorbed by Austria in 1620 and remained part of the Habsburg Empire until its collapse after World War I. The Czechoslovak Republic, proclaimed on 28 October 1918, included the Czech lands; Slovakia, a Hungarian crown land; and sub-Carpathian Ruthenia. Under the 1938 Munich Pact the predominantly German-speaking Sudetenland was ceded to Nazi Germany. The remainder of the Czech Lands was invaded by Germany in 1939, and a German protectorate was created. In 1945 the prewar boundaries were restored with the exception of sub-Carpathian Ruthenia, which was ceded to the Soviet Union. On 25 February 1948 the Communists seized power in a nonviolent putsch. In 1968 a brief period of reform led by President Alexander Dubcek was crushed by Warsaw Pact troops. The federal system of government was introduced that year. Massive demonstrations starting in November



1989, after twenty years of the so-called normalization regime, forced the Communists to relinquish power to the democratic opposition. In December 1989 the Federal Assembly elected the dissident playwright Vaclav Havel president. The first free elections since 1946 were held in June 1990. Intensifying disputes between the Czechs and the Slovaks over the form of their future coexistence prompted the Czech and Slovak democratically elected leaderships to divide Czechoslovakia on 31 December 1992 into two independent states.

### The economy

Before World War II Bohemia was one of the most developed regions in Europe. Under the communist regime Czechoslovakia experienced an economic decline; however, the Czech Republic emerged from the communist period with a more prosperous and less indebted economy than most other post-communist countries. Major industries in the Czech Republic include textiles, glass, china, wood and paper, iron, steel, coal, machine tools, and chemicals.

\* As of December 1990

it had made, including its handling of the election of the president and its failure to form the Senate. Also unpopular was the adoption in June of an amendment to the customs law that was ostensibly aimed at changing the communist-era practice of exempting deputies from searches at the border. The change was prompted by the revelations that some deputies had failed to pay duty when importing expensive products from the West. However, although the amendment made it mandatory for deputies to declare imported goods, it barred customs officials from searching their personal belongings, including suitcases. The law caused a public outcry, and President Havel vetoed it in July.

The parliament also repeatedly delayed the discussion of a law on conflicts of interest, despite growing speculation that some deputies and other politicians had been using their posts to further their business interests. Opinion polls indicated that the procrastination over this issue had reinforced the public's impression that most deputies, regardless of their party affiliation, were putting their own interests above those of the people they represented.

Several other controversial issues caused minor political tremors in 1993. Despite the fact that the constitution requires the Czech Republic to be subdivided into several new territorial and administrative regions, the government and the parliament were unable to agree on how this was to be done. The issue caused tension within the ruling coalition. At the end of 1993 the CDP appeared to be using delaying tactics, arguing that the country could not be subdivided before the local government elections in the fall of 1994; its coalition partners, however, favored a speedy decision. Some opposition parties—and two of the coalition parties—rejected any approach that failed to give federal status to the historical lands of Moravia and Silesia. The main coalition parties, on the other hand (the CDP and

the Civic Democratic Alliance), were afraid that federalizing the Czech Republic would result in the same kind of administrative dualism that had led to the disintegration of Czechoslovakia. The coalition parties were also unable to agree on the issue of the restitution of Church property. The two Christian democratic parties supported the large-scale return of former Church holdings nationalized by the Communists, but the two civic democratic parties were more cautious. The CDP, in particular, advocated the return of only some former Church property.

Another controversy was caused by the adoption in July of a law that declared the former Czechoslovak communist regime illegitimate and criminal and provided for the lifting of the statute of limitations for ideologically motivated crimes committed under the communist regime. The communist party maintained that the law was unconstitutional and asked some international bodies to put pressure on the Czech Republic to repeal it. Also in July the Czech Republic was shaken by a series of reports that agents of the former Federal Bureau of Intelligence and Security (FBIS), founded to protect the constitutional order in post-1989 Czechoslovakia, had spied on leading politicians. It was also alleged that an FBIS agent had sold sensitive information to the president of one of the largest investment funds in the country and that FBIS agents had approached leaders of the CDP with an offer to run an intelligence network for the party. Public protests over these revelations prompted a reevaluation of the work and structure of the Czech intelligence services.

### The Economy

At the end of 1993 some 60% of the Czech Republic's large firms were in private hands, owing mainly to the successful completion of the first wave of voucher privatization (a scheme under which almost 6 million Czechs purchased vouchers exchangeable at

a later date for shares in companies slated for privatization) and a large-scale program restoring property confiscated by the Communists to its former owners. During the first wave of voucher privatization in 1992 and early 1993 about 1,500 companies were privatized in the Czech Republic and Slovakia. In March 1993 the Czech government, in an effort to force Slovakia to repay what the government claimed were large debts to the Czech Republic, declared that it would not release shares in Czech companies purchased under the voucher privatization scheme by Slovaks. However, criticism both at home and abroad eventually prompted the government to reverse its decision. Trading in the shares of more than 900 of these companies began in June at the Prague Stock Exchange, which had officially opened on 6 April 1993. The second wave of voucher privatization, involving some 770 companies, was launched in the autumn; about 6 million Czechs again bought vouchers. Most of the newly privatized firms are owned by two or three of the 400 or so investment funds that mushroomed in 1992 and by a number of individual shareholders. The private sector's share of the gross domestic product (GDP) was more than 50% by the end of 1993.

The Czech economy continued to contract during the first few months of 1993 (following a 7.1% drop in GDP in 1992), mainly owing to the 30% decline in trade with Slovakia triggered by the division of Czechoslovakia. However, in the final months of 1993 the economy showed signs of revival, and at the end of the year the GDP was estimated to have reached the 1992 level. The main reason why the GDP recovered despite the continuing fall in industrial production was that Czech exports (some 80% of which went to Western markets) expanded by more than 16% in comparison with 1992; at the end of 1993 the share of exports in GDP was more than 50%. Government data for the first nine months of 1993 showed a

trade surplus of \$268 million. The country also benefited from a continuing rise in the number of foreign visitors; revenues from tourism exceeded \$1 billion—an increase of some 36% over 1992. The Czech Republic's foreign debt, at \$7.4 billion, remained one of the lowest in Eastern Europe.

Foreign investment in the country during the first nine months of 1993 did not live up to government expectations; only \$455 million was invested. (In comparison, \$600 million was invested during the same period of 1992, and total foreign investment in 1992 reached \$1.2 billion.) However, according to government officials, foreign investment grew significantly in the final months of 1993. In what appeared to be a confirmation of the growing feeling among foreign investors that the Czech Republic had successfully recovered from the split-up of Czechoslovakia, Moody's Investors Service Inc. gave the republic the first investment-grade rating to be awarded a country of the former Soviet bloc. Furthermore, Standard and Poor gave the Czech Republic a BBB rating, which put the country into the "investment" category, on a par with Chile, Israel, China, and Turkey, and two points above Hungary, which was listed in the "speculative" category. At the end of 1993 almost 7,000 joint ventures with some foreign participation and about 5,300 ventures with 100% foreign participation were registered in the Czech Republic. Efforts to increase foreign investment suffered a setback at the end of 1993, when the German carmaker Volkswagen announced that, owing to its financial problems, it would reduce its overall long-term investment in the Czech carmaker Skoda to DM 3.7 billion (\$2.3 billion), approximately half of the investment pledged originally.

In June, in an attempt to lure foreign investment by keeping labor costs low and also to hold inflation down, the government reintroduced strict wage controls for all companies

with more than twenty-five employees. The move followed a 36% increase in wages between June 1992 and June 1993, which, in the government's opinion, did not match increases in productivity. Although the measure met with resistance both from trade unions and from the management of some enterprises, Prime Minister Klaus pledged to extend wage controls through 1994. The government also pursued a very tight fiscal policy. The country's budget showed a surplus in 1993, and a balanced budget was approved by the parliament for 1994. Owing partly to the introduction of value-added tax at the beginning of 1993, the average monthly rate of inflation surged to 8.5% in January, but it eventually stabilized at less than 1%. The annual inflation rate in 1993 was around 20%, compared with 11% in 1992.

The unemployment rate at the end of 1993 was about 3.5%, one of the lowest in Europe. This prompted some economists to speculate that there was high hidden unemployment or that the real restructuring of the economy had not yet taken place. In April the parliament approved a bankruptcy law that proved to be rather ineffective for a number of reasons, including the lengthy court proceedings involved; the government's efforts to protect vulnerable companies and its inability to persuade new company owners that filing for bankruptcy and reorganizing under bankruptcy protection would lead to economic growth in the long run; and the fact that Czech banks not only held the firms' bad debts but also owned the country's largest investment funds, which, in turn, held shares in some of the debt-ridden companies. It is believed that about one-third of all newly privatized companies are technically bankrupt. Czech firms owe one another some 130 billion koruny (\$4.4 billion) in unrepayable debts, equivalent to some 14% of GDP. At the same time, the firms owe commercial banks about 140 billion koruny, four-fifths of which may never

be repaid. At the end of 1993 some government officials declared that they would like to generate more bankruptcies to free the resources of bankrupt companies for more productive uses, even at the cost of higher unemployment.

#### Social Issues and the Media

Public opinion polls indicated that in 1993 crime remained one of the main causes of public concern; it rose by more than 20% in comparison with 1992 (when it increased by more than 20% over 1991 levels). Czech officials did not deny that crime had skyrocketed since the "velvet revolution" of 1989, but at the same time they tried to put in perspective what the Czech and Western media frequently described as "a crime epidemic." For example, in October the Ministry of Internal Affairs released data obtained from Interpol showing that in the Czech Republic the number of crimes per 100,000 people was still significantly lower for all major types of crime than in most West European countries.

Two other important social concerns were the quality of health care and the state of the environment. An ambitious program to privatize the health-care system was launched in January 1993. After a period of confusion resulting in the replacement of the minister of health, the program appeared to be generating improvements; it allowed people a choice of doctors and introduced a private system of health insurance. There was little or no improvement, however, in the state of the environment. Despite the government's long-term plans for ensuring a cleaner environment, in 1993 some areas of the Czech Republic continued to suffer from serious pollution—in particular, high concentrations of sulfur dioxide caused by the burning of brown coal in power plants and houses. Owing to adverse climatic conditions, pollution was temporarily so bad in Northern Bohemia and Prague in February that the two regions were described by some experts as en-

vironmental disaster areas. In the hope of eventually disposing of some of the major polluters, the government, disregarding protests by Austrian politicians, gave its approval in the summer to the completion of the nuclear power plant in Temelin, near the Austrian border.

Yet another serious social problem was the rise in the number of racially motivated attacks on Romanians, thousands of whom had moved to the Czech Republic from Slovakia in 1992 in anticipation of the division of Czechoslovakia, joining several hundred thousand Romanians already living in the country. Several Czech towns adopted municipal ordinances aimed at controlling the migration of Romanians and allowing town councils to evict or fine Romanians if certain standards of hygiene or occupancy were violated. A draft law proposed by the Czech Prosecutor-General Jiri Setina to deal "with the unrest caused by undisciplined groups of migrants," who were identified as Romanians in the report accompanying the bill, caused a public outcry in the first months of 1993. The measures were eventually voted down by the Czech parliament and marked the beginning of a public campaign against Setina, who resigned in the summer.

The Czech media in 1993 were free of direct government interference, but in February some top politicians attempted to reverse a recent decision by the independent Board for Czech Radio and Television to license CET 21, a private Czech television company with strong US backing, to broadcast nationwide as of February 1994. Despite the fact that the decision was not changed, the board's chairman eventually resigned in protest against what he described as a growing tendency among some Czech politicians to strip the board of its independence. In 1993 the board also licensed two private radio stations to broadcast nationwide; a number of local private stations had been licensed in 1992.

### Foreign Policy and Security

The new Czech Republic quickly re-established most of the contacts that Czechoslovakia had maintained with other countries and international institutions. In 1993 it became a member of the United Nations, the Conference on Security and Cooperation in Europe, and the Council of Europe. Its association agreement with the European Community, signed in September, replaced an earlier accord signed in December 1991 by Czechoslovakia. The Czech Republic was also admitted to the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade; and in October it was elected to the UN Security Council.

One of the Czech Republic's most important foreign-policy tasks in 1993 was establishing good relations with Slovakia. Although the two new countries sparred over a number of issues, they remained on generally friendly terms. Slovakia repeatedly protested against Czech efforts to create a normal international border between the two countries, but checkpoints were eventually established. Although Czechs and Slovaks continue to be able to cross the border at any point and without travel documents, citizens of third countries can cross only at designated crossing points and are subject to regular border checks. The Slovak government also repeatedly asked—in vain—for changes in the Czech citizenship law that would allow Czechs and Slovaks to hold dual citizenship. Some 300,000 Slovaks decided to stay in the Czech Republic following the division of Czechoslovakia, constituting the new country's largest minority. Despite repeated conflicts over the division of former federal property, both countries eventually succeeded in settling most of their mutual claims; Czech officials said at the end of 1993 that 95% of the property had been divided.

The Czech Republic strove to improve its relations with Germany, but the controversy surrounding the issue of Sudeten Germans remained

unresolved. The Czech government not only refused to compensate any of the 3 million or so Germans expelled from Czechoslovakia after World War II but declined even to hold talks with representatives of the Sudeten Germans. The government eventually promised to open talks with the Sudeten Germans at a non-governmental level, but it repeatedly postponed the talks. In the autumn the Czech Republic came under pressure from officials in Bonn, who said that a Czech-Slovak rapprochement and the integration into Europe of the Czech Republic would not be possible if the issue of the Sudeten Germans was not dealt with openly. However, Czech leaders ruled out any formal contacts.

During 1993 Czech politicians repeatedly expressed skepticism about institutionalizing cooperation with Hungary, Poland, and Slovakia within the framework of the Visegrad Group. These countries established a free-trade zone in early 1993, but Czech officials resisted efforts to coordinate the four countries' steps toward gaining membership in European institutions. Czech leaders advocated closer relations between the Czech Republic and NATO, including eventual full membership. In October, when NATO rejected the idea of full membership for some East European states and endorsed instead the "partnership for peace" proposal of US Defense Secretary Les Aspin, which offers closer cooperation but no security guarantees, Czech officials were initially critical of what they saw as the West's lack of resolve to integrate the new East European democracies; but they eventually embraced the proposal as an important first step.

Czech Defense Minister Antonin Baudys launched a series of reforms in 1993 aimed at overhauling the Czech Army so as to make it a modern defensive force that would eventually be compatible with NATO armies. However, he faced budgetary constraints that are likely to delay such reforms.

Baudys also initiated a purge of the officer corps in an attempt to rid the army of professional soldiers compromised by active collaboration with the former regime. In July he submitted a proposal under which the armed forces were to be cut from 85,000 to 65,000 by the end of 1995. The number of professional soldiers was to be reduced from 43,000 to 32,000.

### Conclusion

Despite the fact that the Czech Republic earned high marks in 1993 for political stability, social calm, and relatively successful economic reforms, there were some reasons for concern. Above all, many large, insolvent enterprises are eventually likely to file for bankruptcy; such a development would significantly increase unemployment and could therefore

cause social unrest. Second, although some 60% of large enterprises were (at least nominally) in private hands at the end of 1993, most new owners did not immediately start restructuring; when they do so, the first thing they are likely to do is to cut their inflated work forces. The government apparently believes that at least some of the newly unemployed may be absorbed by the rapidly expanding private sector. In 1993 it did not have to contend with strong trade unions; however, this could change if unemployment were to rise sharply and living standards to fall. It should also be remembered that the government coalition is supported by only 105 deputies in a 200-member parliament and that it is not the overall weakness of the Left but rather its fragmentation that has allowed right-

of-center parties to dominate the political scene so far.

That said, in 1993 the Czech Republic was one of the few countries in Eastern Europe that was not plagued by an upsurge in nationalist sentiments, political upheavals, or continuing economic decline. Its population, unlike those of most other postcommunist countries, continued to support a government responsible for implementing radical and painful reforms. Although the country still needs to complete the overhaul of its constitutional system and faces the possibility of further economic hardship, in 1993 it managed to create political and economic conditions that appear to give reform a reasonable chance of success.

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