

**DISINTEGRATION OF STATES IN  
INTERNATIONAL POLITICS:  
A STUDY OF CZECHOSLOVAKIA**

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CERTIFICATE

Certified that the present dissertation "DISINTEGRATION OF STATES IN INTERNATIONAL POLITICS : A STUDY OF CZECHOSLOVAKIA", being submitted by Varsha Rajan is worthy of consideration for the award of M.Phil. degree of Jawaharlal Nehru University. This is her own work and has not been published or presented for the award of any degree of this University or any other University in India.

  
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## PREFACE

This study is divided into four Chapters followed by a concluding one. Chapter 1 deals with the phenomenon of disintegration in International Politics and various causes which have led to the breaking up of the states. In the end it also throws light on the contrasting feature of disintegration of states on one hand and unification on the other in post-cold war era. Chapter II concerns with the detailed historical background of Czechoslovakia till 1989. The Velvet Revolution, transformation of the economy to a market economy and the causes of the Velvet Divorce leading to the disintegration of Czechoslovakia into Czech Republic and Slovak Republic marks the theme of Chapter III. Chapter IV relates to the problems and prospects of the two newly formed independent states. In the concluding chapter attempts have been made to trace down the main points of my study and to identify the role of the new republics, their position in the Central Europe and their proximity with each other in the future.

This study has involved the use of both primary and secondary sources and material and interviews given to me by the Ambassadors of the Czech and Slovak embassy, New Delhi.

I am unable to find words to express my deepest gratitude to my guide Dr. K.S. Jawatkar who supervised this work

with zeal and interest. Without his valuable guidance, support, co-operation and constant encouragement this work would have been impossible.

I am grateful to my family for encouraging me and having borne with me patiently during my work at Jawaharlal Nehru University. I must extend my sincere thanks to all my friends who rendered me substantial assistance in completing my dissertation.

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Finally, I acknowledge, the responsibilities for all errors and omissions, if any.

18 July, 1994

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## CHAPTER I

### INTRODUCTION

In 1991, the two major multi-ethnic communist states, the Soviet Union and Yugoslavia ceased to exist. The sudden and unexpected collapse of two major states of Europe has threatened the peace and security of the continent in particular and the world in general. In the post cold war era, the binding forces of states have either weakened or been completely abandoned. The result was disastrous for many states, because the new institutions and values could not be replaced soon to sustain the structure of the old states, leading to disintegration of some of them. However, the process of disintegration is yet to be completed.

"The century that began full of self-confidence in the ultimate triumph of Western liberal democracy seems at its close to be returning full circle to where it started; nor to an "end of ideology" or a convergence between capitalism and socialism, as earlier predicted, but to an unabashed victory of economic and political liberalism".<sup>1</sup>

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1. Francis Fukuyama, "The End of History?", The National Interest, Summer 1989, p.3.

The triumph of the West, of the Western idea, is evident first of all in the total exhaustion of viable systematic alternatives to Western liberalism. In the past decade, there have been mistakable changes in the intellectual climate of the world's two largest communist countries, and the beginning of significant reform movements in both to the extent that it led to the end of communism in the whole of Eastern Europe and ultimately to the collapse of the Soviet Union.

As Francis Fukuyama puts it :

"What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government".<sup>2</sup>

**End of History in 1806 :** "The historicism of Friedrich Hegal has become part of our contemporary intellectual baggage. The notion that mankind has progressed through a series of primitive stages of consciousness on his path to the present, and that these stages corresponded to concrete forms of social organization, such as tribal, slave-owning, theocratic, and finally democratic-egalitarian societies, has become inseparable from the modern understanding of man.

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2. Ibid., p.4.

Hegel was the first philosopher to speak the language of modern social science, insofar as man, for him, was the product of his concrete historical and social environment. The mastery and transformation of man's natural environment through the application of science and technology was originally not a Marxist concept, but a Hegelian one".<sup>3</sup>

Hegel proclaimed history to be at an end in 1806. For as early as this Hegel saw in Napoleon's defeat of the Prussian monarchy at the Battle of Jena the victory of the ideals of the French Revolution, and the imminent universalization of the state incorporating the principles of liberty and equality.

The state that emerges at the end of history is liberal insofar as it recognizes and protects, through a system of law, man's universal right to freedom, and democratic insofar as it exists only with the consent of the governed. This so-called "universal homogeneous state" of Hegel's vision found real-life embodiment in the countries of post war Western Europe.

Communism was a serious challenge to liberalism. Marx, speaking Hegel's language, asserted that liberal society contained a fundamental contradiction between labor and capital that could not be resolved. But surely, the class

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3. Ibid., pp.4-8.



issue has actually been successfully resolved in the West. The egalitarianism of modern America represents the essential achievement of the classless society envisioned by Marx. This is not to say that there are not rich people and poor people in the United States, or that the gap between them has not grown in recent years. But the root causes of economic inequality have less to do with the underlying legal and social structure of our society, which remains fundamentally egalitarian and moderately redistributionist, as with the cultural and social characteristics of the groups that make it up, which are in turn the historical legacy of premodern conditions. Thus black poverty in the United States, for example, is not the inherent product of liberalism, but is rather the "legacy of slavery and racism" which persisted long after the formal abolition of slavery.

As a result of the receding of the class issue, the appeal of communism in the developed Western world, it is safe to say, is lower today than any time since the end of the First World War.

**Gorbachev and the West** : "The developments in the Soviet Union - the original 'homeland of the world proletariat' - that have put the final nail in the coffin of the Marxist-

Leninist alternative to liberal democracy".<sup>4</sup> The Soviet Union could in no way be described as a liberal or democratic country now. But it is not necessary that all societies become successful liberal societies merely that they end their ideological pretensions of representing different and higher forms of human society. And in this respect something very important has happened in the Soviet Union in the past few years. The criticism of the Soviet system sanctioned by Gorbachev have been so thorough and devastating that there is very little chance of going back to either Stalinism or Brezhnevism in any simple way. Gorbachev has finally permitted people to say what they had privately understood for many years, namely, that the magical incantations of Marxism Leninism were nonsense, that Soviet socialism was not superior to the West in any respect but was in fact a monumental failure.

"There is a virtual consensus among the currently dominant school of Soviet economists now that central planning and the command system of allocation are the root cause of economic inefficiency".<sup>5</sup> After a couple of initial years of ideological confusion, these principles have finally been

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4. Ibid., p.6.

5. Ibid.

incorporated into policy with the promulgation of new laws on enterprise autonomy, cooperatives.

**No Universal Alternative** : The passing of Marxism-Leninism first from China and then from the Soviet Union will mean its death as a living ideology of world historical significance. And the death of this ideology means that growing "Common Marketization" of international relations, and the diminution of the likelihood of large-scale conflict between states.

This does not by any means imply the end of international conflict per se. For the world that point would be divided between a part that was historical and a part that was post-historical. There will still be a high and perhaps rising level of ethnic and nationalist violence, since those are impulses incompletely, played out, even in parts of post-historical world. Palestinians, Kurds, Sikhs, Irish Catholics, and Armenians will continue to have their unresolved grievances. This implies that terrorism and wars of national liberation will continue to be an important item on the international agenda.

He is also right in pointing to the virtual end of the appeal of communism as an ideology. Ideologically, communism has been "the grand failure" that Brzezinski labels it. "It is erroneous, however, to jump from the decline of communism

to the global triumph of liberalism and the disappearance of ideology as a force in world affair.

Firstly, revivals are possible. A set of ideas or an ideology may fade from the scene in one generation only to reappear with renewed strength a generation or two later.

Secondly, the universal acceptance of liberal democracy does not preclude conflicts within liberalism.

Thirdly, the triumph of one ideology does not preclude the emergence of new ideologies. Nations and societies presumably will continue to evolve. New challenges to human well-being will emerge, and people will develop new concepts, theories, and ideologies as to how those challenges should be met. Unless all social, economic, and political distinctions disappear, people will also develop belief systems that legitimate what they have and justify their getting more. Among its other functions, for instance, communism historically legitimized the power of intellectuals and bureaucrats. If it is gone for good, it seems highly likely that intellectuals and bureaucrats will develop new sets of ideas to nationalize their claims to power and wealth.

Fourthly, Fukuyama's thesis itself reflects not the disappearance of Marxism but its pervasiveness. Fukuyama speaks of the 'universal homogeneous state', in which "all

prior contradictions are resolved and all human needs are satisfied".<sup>6</sup> Fukuyama says liberalisation is the end of history. Marx says communism "is the solution to the riddle of history". They are basically saying the same thing and, most importantly, they are thinking the same way. Marxist ideology is alive and well in Fukuyama's arguments to refute it.

Thus, we have witnessed that after the fall of Communism, there has been sudden break up of states. The fall of communism itself has been a major catalyst in the disintegration of states. Mr. Klabo, Ambassador, Slovak embassy, New Delhi, expressed in his interview that the breaking up of all barriers for free expression and political activities after the fall communism regime, led to the break up of his country as well as of Soviet Union and Yugoslavia. The reforms of Gorbochev and his Perestroika and Glasnost started the whole process of the dismantling of the communist rule and the collapse of the communism in the whole of Eastern Europe. Yugoslavia was one till under the dictatorship of Tito, it was only after his death that communism fell and gradually led to the disintegration of the country.

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6. Ibid., p.8.

The constitution of Soviet Union granted the secession of states from the union. The union remained integrated till the communist dictatorship was alive, but soon after the fall of communism, the union started to fall apart.

The process of division of states on the basis of ethnicity and nationalism has not always been peaceful. While the Soviet Union collapsed without any bloodshed and simply on the basis of negotiations. Yugoslavia's disintegration was followed by bloody ethnic conflicts.

The Soviet Union and Yugoslavia were built as federations on the principle of national territorial autonomy. The Soviet Union was "the first modern state to place the national principle at the base of its federal structure".<sup>7</sup> Yugoslavia and Czechoslovakia also adopted the principle of federal structure, where federal units were created on the basis of nationality and ethnicity. The Marxist belief and understanding that nationalism is a transitory social phenomenon, and in a classless society nationalism and ethnicity will lose their relevance could never be achieved and thus, the most successful social policies of the Soviet regime finally gave birth to new independent sovereign states based on nationalism and ethnicity.

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7. Richard Pipes, The formation of Soviet Union, Communism and Nationalism (Cambridge, Harvard University Press, 1954), p.112.

"Ethnicity is a sense of ethnic identity. The objective cultural makers may be a language, religion, race etc. and any one of them may be a divisive cause for creating differentiation leading to disintegration".<sup>8</sup>

The new upsurge for creation of an independent sovereign state or autonomous on the basis of ethnic groups or nationalities may be broadly classified in five categories, namely, "(i) having the historical background for such demands; (ii) no or hardly any record of any background; (iii) agitation for such demands began before the end of the cold war; (iv) violent or non-violent means adopted to achieve the objective; and (v) receiving moral and/or material support from one or more foreign countries".<sup>9</sup> The Soviet Union and Yugoslavia are faced with all the above categorisations of the movements for independent sovereign states.

The seeds of disintegration of the erstwhile Soviet Union and Yugoslavia were sown when the two countries constituted themselves as federal states. The republics were given the right of secession from the federation. The feder-

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8. O.N.Mehrotra, "Ethno-Nationalism in the Post Cold War Era", Strategic analysis (New Delhi), Vol.XVII, No.6, September 1993, p.689.

9. Ibid., p.690.

ation could be kept united under the authoritarian communist regime, but as the state authority began to loosen, the constituent units invoked the right of secession. The dominant Russians did not resist the disintegration of the former Soviet Union, but the dominant Serbs opposed the break up and inter ethnic armed clashes began first in Croatia and then in Bosnia-Herzegovina. These ensuing ethnic conflicts have eluded a solution for the last many months.

"The division of states has also taken place in the name of religion. In 1947 during the cold war era the Indian sub-continent was divided into India and Pakistan on the basis of religion. However, in certain cases the cold war itself was a divisive factor - Germany was divided into East and West and Korea into North and South are standing examples of the same".<sup>10</sup> In the post cold war era, religion and nationality make the Balkans more a flash point than a melting pot. The religious problems in the former Soviet Union continue to haunt most of the newly independent nation states, including its neighbours like Romania, Turkey and other Islamic countries. The first conflict in erstwhile Soviet Union based on religion broke out in Nagorno-Karabakh which has a majority population of Armenian Christians, but

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10. Ibid., p.693.



is an enclave of Muslim Azerbaijan and is still eluding a solution.

In the post cold war era, many new nation states have been formed and acquired membership in International Organisations. Such a trend is the most destabilizing development, especially for multi-ethnic countries. Most of the new nation states have been created because of disintegration of Soviet Union and Yugoslavia. The most disturbing factor in this era is that a super power or a group of countries in the name of International Organisation can divide a country into two or more parts, like Iraq was divided into three parts. Foreign powers also encourage division of a country on the basis of cantonisation i.e. different ethnic groups should live peacefully in autonomous cantons. It appears that ethnicity and nationalism along with other factors will determine the course of international affairs and the internal affairs of multi-ethnic countries in the post cold war era.

However, all the clashes and divisions are not a result of the end of the cold war, but they are influenced by the same because of the changing international environment and recognition to the demand of ethnic groups to create new independent states based on ethno-nationalism. Even the principle of self determination is propagated to acquire a

sovereign independent nation state for an ethnic group. It is a means to fragment an existing nation state, Kurdish crises is the most significant example, in this respect. The other examples of ethnic crises and separatist movements are Tibetans in China, Kashmiri Muslims and Sikhs in India, Tamils in Sri Lanka, Palestinians in Israel and other West Asian countries.

Thus, the need of the hour is to avoid disintegration for establishing a state on the principles of "further representation, responsiveness and demo-cratism".<sup>11</sup>

Once such a state is established, an ethnic group has no legitimate claim for it. However, in a multi ethnic state some ethnic groups or nationalities may be granted autonomy in democratic policy.

"In the twentieth century, for the third time, a large scale restructuring of states has taken place especially in Europe. Earlier a large scale restructuring had taken place after the first and the second world wars. The centrifugal forces have been so strong in some states that efforts to keep a disintegrating state as a united entity have generally failed. The end of the cold war has given an added impe-

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11. Anwtai Etzioni, "The evils of self-determination", Foreign Policy (Washington), No.89, Winter 1992-93, p.21.

tus to the recognition of the various nationalities and ethnicity which were hardly known in the past".<sup>12</sup> Apart from former Soviet Union and former Yugoslavia which were faced with the serious crises of recognition to the independent sovereign states on the basis of ethno-nationalism, some other countries like the former Czechoslovakia, in Eastern Europe, and Iraq in Asia will be dealt in detail in this study. Primarily because of end of cold war, China, India, and Sri Lanka in Asia, have been faced with the demand for more autonomy or full sovereignty by ethnic groups or nationalities.

Another interesting and contrasting emerging trend of the twentieth century has been the unification process in the post cold war, post communist era. Germany is a standing example of this feature. The two Germany's were united in October, 1991, after the destruction of the Berlin Wall. Korea is also in the process of unification.

Thus, the two emerging trends in post cold war era in this century are: disintegration of states and the unification of states.

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12. Mehrotra, n.8, p.694.

## CHAPTER II

### CZECHOSLOVAKIA

Czechoslovakia lies in the heartland of central Europe and has common frontier with Austria, Hungary, the Soviet Union, Poland, German Democratic Republic (GDR) and Federal Republic of Germany (FRG) now united Germany. Its principal regions are Bohemia, Moravia and Slovakia. Bohemia, is politically and economically the most important part of the country. While Moravia is known for its coal and steel industries in the North, Slovakia is important for agriculture.

#### HISTORY

"Czechoslovakia has always seemed at the forefront of the various forces that have alternately plagued and healed Europe. In the nation-building that occurred after World War I, the Czechs and Slovaks were primary participants. In the wave of communism that swept Eastern and Central Europe in the 1940s, the country succumbed. And in the current era of rising nationalism and state deconstruction, Czechoslovakia is again leading the pack, but in its traditional peace-

ful fashion".<sup>1</sup>

In the 10th Century , Czechs and Slovaks shared a common national identity as partners in the Great Moravian Empire, a voluntary union of Slavic tribes speaking related dialects that would become a reference point for the creation of the First Republic in 1918.

But at the turn of the 10th century, the nomadic Magyars invaded the Empire, separating the cultural and political paths of the Czechs and Slovaks for the next 900 years.

The Hungarians did not seize the entire Empire, but rather focused on the lowlands around the Danube River - Slovakia. The Magyars almost completely dominated the land they called "Upper Hungary", and kept its population essentially rural, agrarian and poorly educated. Those who were educated, were educated in the Hungarian fashion, and by the end of the 18th century, the Slovak language and culture had nearly been eradicated.

The Czechs, meanwhile, fixed their sights on Bavaria, leading the people to follow the more Latin culture of the West. Further Germanization occurred in the 13th century, when streams of colonists flowed in from overpopulated German territories. The Czechs made significant contribu-

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1. Maarten Troost, Fundamentals of Czech History, 1968, p.8.

# CZECHOSLOVAKIA HISTORIC REGIONS MAP



tions to the cultural and political history of Europe's mainstream (see Map I).

With the rise of the Habsburg Monarchy in the 19th century, the Czechs and the Slovaks became two components in a huge, multinational state. In 1867, when Austria and Hungary agreed to divide the administration of their vast territory, the Czechs again went West and the Slovaks to the East, further exacerbating the cultural and political differences between the two people. The Czechs were awarded limited political participation, but still they struggled with the ever-increasing encroachment of German influence. The Hungarians repressed all dissent for fear of a Slavic uprising within their domain and basically kept Slovakia as the nation's breadbasket.

Both people experienced a rise in national consciousness during the Habsburg era, when they began publishing books and newspapers in their own tongue. But the movement had limited success and only increased the desire for national realization.

As Europe gave in to the tide of World War I, the Czech T.G. Masaryk and others hoped for an Allied victory, believing if Germany were not defeated, its Austrian ally would strengthen its hold over the Czech lands and crush the burgeoning hopes for nationhood. Although he once supported

the Empire, Masaryk called in 1915 for dismantling the Hapsburg monarchy and establishing Czechoslovakia. He argued that the Czechs had a historical right to such a state, and that the Slovaks, long oppressed by the Hungarians, also had a right to live in one state with the Czechs.

Masaryk, along with Czech colleague Eduard Benes and Slovak colleague M.R. Stefanik, gained the support of the international community. Effective lobbying by Czech and Slovak communities in the United States also added force, and Masaryk and U.S. President Woodrow Wilson signed the Pittsburgh Agreement in May 1918 thus establishing the new nation.

"Czechoslovakia and not two nation states were established because Masaryk's concept of democracy was tempered by pragmatism. He realized that an independent Czech Republic, in which roughly 30 percent of the population was German, could not function as a true Slavic nation. In the Czech lands, the German minority was especially vocal in advancing its interests. Furthermore, Slovakia had neither the critical mass nor the political development necessary to attain nationhood on its own. Essentially, it was a marriage of convenience".<sup>2</sup>

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2. Frantisek Kavka, An Outline of Czechoslovak History (Prague: Orbis, 1960), p.120.



"These two nations, separate and fundamentally different, undertook an experiment in nation building that lasted 74 years. The reasons behind Czechoslovakia's founding were rational, practical, and to a very real extent emotional. But the seeds of discord were planted even before the nation's birth. Those seeds grew faster than the hope that the nation could survive its own differences".<sup>3</sup>

#### THE FIRST REPUBLIC (1918-1938)

"Under the Presidency of Masaryk, 1918-1935, one of the first tasks confronting the new Czechoslovakia State was the fixing of its boundaries. The government claimed the historic borders of Bohemia, Moravia and Silesia, but demanded the ethnic frontiers of Slovakia. These frontiers contained large national minorities, particularly Germans and Hungarians, whose hostility to Czechoslovakia played a major role in the new State".<sup>4</sup>

Four years of war followed by the disintegration of Austria - Hungary had spelled economic collapse throughout Central Europe at the same time, Czech municipal elections of June 15, 1919, were in favour of socialist solutions. The

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3. H. Gordon Skilling, Czechoslovakia : Seventy years from Independence (New York : St.Martins Press, 1991), p.49.

4. The Europa World Year Book, 34th Edition, Volume I.

concentration of land in the hands of German and Hungarian aristocrats under the Habsburg were quickly attacked, and the first and long overdue land measure was enacted on April 16, 1919.

Although Czechoslovakia was the only East European State which remained an effective parliamentary democracy in the period 1918-38, it was plagued with minority problems. The German element (more than 22 per cent of the population) was not reconciled to losing its former dominant role and becoming a minority in a Slav-ruled state. The beginnings of Czech-German reconciliation in the late 1920's were largely nullified by effects of the depression in the 1930's and even more by Hitler's accession to power in Germany and his pursuit of an aggressive pan-German policy.

"The economic crisis of 1929-1934, which began with the crash on the New York stock exchange in October 1929, disrupted the whole economic system of the world, and its disastrous consequences (the sharp decline in production, mass unemployment and disruption of foreign trade) brought changes in the international situation. Above all, the authority of the Soviet Union rose, for it was the only country unaffected by the crisis. The Czechoslovak Government strove for better relations with the Soviet Union, especially when the Little Entente gradually fell apart. The

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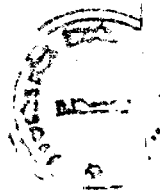
result of this new course was the *de jure* recognition of the Soviet Union by the Czechoslovak Government in June 1934".<sup>5</sup>

The economic crisis did not reach its climax in Czechoslovakia until 1933 (when production fell to 60 per cent of the 1929 figure), specific local conditions intensified the effects of the crisis. A primary factor here was the less advanced technique and rationalization of industrial production than in the more mature capitalist countries, particularly Germany, which was Czechoslovakia's greatest competitor in its most important foreign markets, particularly Germany, which was Czechoslovakia's greatest competitor in its most important foreign markets, particularly in the Balkans. Another factor was the low purchasing power of the workers which considerably narrowed the domestic market. The depression was also deepened here, as compared with Western countries, by the relatively large share of agriculture in total production, together with the fact that agriculture had been in a condition of crisis ever since 1927. Therefore the decline in production was also greater than in other capitalist countries. The most serious consequences were felt in the textile industry-the most important branch of light industry-which had held first place in foreign trade.

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5. Skilling, n.3, pp.62-65.

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The decline in foreign trade also led to a restriction or a stoppage of production in all branches of the export industry. The crisis struck Slovakia even more disastrously because of its greater technical backwardness.

The economic crisis brought about a profound decline in the living standards of the working people. According to official statistics, unemployment reached almost a million, affecting primarily the working class, which also suffered from a sharp decline in the wage ratio. Hardest hit were Slovakia and the German border regions of the Czech Lands, where most of the export industry was concentrated. With a view to prevent inflation caused by the economic crises, Czechoslovakia introduced a stable currency, the KORUNA.

"The Slovak problem went beyond the Slovak accusations that the Czechs monopolized administrative posts in Slovakia and were responsible for the poor Church - State relations. Many Slovaks had envisaged the republic as a dualist Czechoslovak State and a self-governing Slovakia as morally, if not legally, binding. The 1920 constitution which declared Czechoslovakia a unitary system, disappointed many Slovaks. Subsequent conflicts between the Czechs and the Slovaks added to this discontent, though complete separation was not yet advocated".<sup>6</sup>

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6. The Europa World Year Book, 34th Edition, Volume I.

President Masaryk resigned in 1935 because of illness after having served three terms in office. Dr. Benes assumed the presidency between 1935-38 at a time of domestic and international tension. Hitler had already embarked on his policy of expansion. He had earlier demanded a "decentralization of administration" and freedom for the Germans "within the scope of the constitution" but subsequent events showed the more extreme nature of his demands. The negotiations between the Slovak premier and leaders of the German minority in 1935 resulted in the declaration of 1937, which promised to meet the demands of the German citizens for equal opportunity in the public service and for equal unemployment benefits. The same privileges were extended to other minorities. However, the Sudetan Germans (as Germans living outside Germany came to be called), put forth new demands for a complete reorganisation of Czechoslovakia along nationality lines. In 1938 Hitler proclaimed the Third Reich "the protector of those Germans who are subject to another country".

At Munich in September 1938 Germany, France, Italy and the United Kingdom forced the Czechoslovakia government to cede certain border areas to Germany. Czechoslovakia thus, lost its western provinces, which were economically richest and had the best fortifications and natural defences. In

# CZECHOSLOVAKIA Territorial Changes 1938-1945 MAP II



March, 1939, Nazi Germany invaded what remained of Bohemia and Moravia, established a German "protectorate" over them, and created a puppet republic out of Slovakia.

Slovak democratic forces, with the support of Slovak Communists, engineered a revolt in the summer of 1944. It failed because of decisive German Military intervention and the refusal of the Soviet forces either to intervere themselves or to permit more than token U.S. and British intervention in support of the insurgents. All of Slovakia and Moravia and most of Bohemia, including Prague, were liberated in 1944-45 by Soviet armed forces. In the months following the defeat of Nazi Germany, some 2.5 million ethnic German were expelled from Czechoslovakia (See Map II).

Czechoslovakia had been betrayed by the West at Munich and believing that the Soviet Union could be the leading country in the post war Europe, considered Soviet friendship vital. It hoped to be friendly with both the West and U.S.S.R. to be secure and to serve as a bridge between East and West.

"The country was ruled by a coalition government which included communists till 1946. The democratic elements hoped the Soviet Union would allow Czechoslovakia freedom to choose its own form of Government and serve as a bridge. This objective was sustained by Czechoslovakia's highly

developed economy, its strong democratic traditions and its readiness to accept a considerable degree of socialization of the economic system. The Communist Party, which won 38 per cent of the vote in 1946, however, held most of the key position in the government and gradually managed to neutralize the anti-communist forces and seized power completely in February 1948. Despite the fact that Czechoslovakia's social and political system closely resembled those in the West, the country quickly adapted to the Communist regime. The Soviet System of purges and staged trials was soon followed in Czechoslovakia. Gradually the workers revolt, agrarian discontent and demand for more cultural freedom started. A limited liberalization that started in 1953 later was reversed by the Hungarian revolt in 1956. Ruthless collectivization of agriculture, decentralization of industry became a tool for the liquidation of "bourgeois" and "reactionary elements".<sup>7</sup>

#### **1968 DEVELOPMENTS**

"The fundamental causes of the revolution that occurred in Czechoslovakia in 1968 were, like all revolutions it had been going on for some time before, it came to the surface.

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7. Ibid.



But it had three root causes each of which was linked with the repressive character of the Novotny regime. The first was the failure of the economy: after a period of considerable economic ambition and relative success, the economy had begun to fail visibly, production had actually fallen in some years, and an endemic and continuing crisis appeared to have set in. The questions of profitability, of operation of a market mechanism and of the formation of prices were fundamental to any attempt to deal with these ills, and the compromises that President Novotny had allowed to emerge in the discussion and application of these measures were insufficient to do so. The economy itself demanded greater freedom of discussion and initiative. The second factor was the question of the relations between Czechs and Slovaks-in itself one of the contributory factors and also continuing symptoms of the economic malaise.

The third factor was one of what used to be called freedom, but is now more politely referred to as liberalization. There had in fact been a considerable relaxation of intellectual control in Czechoslovakia during the previous three or four years. As in all revolutionary situations, it had, however, merely produced the demand for more. And it was followed by a fairly savage moment of repression, as one

consequence of the Six-day War in 1967".<sup>8</sup>

Politically the 13th congress of the Communist Party (1966) had made no significant changes. Novotny remained first secretary, and there were many causes for dissatisfaction with his regime: between 60,000 and 70,000 people, mostly victims of political trials from 1950 to 1965, were waiting for rehabilitation and compensation; the intelligentsia was protesting against the censorship; and industrial workers, peasants, and civil servants began to grumble when the decentralization of the economy was prevented from functioning satisfactorily. The Slovaks moreover were clamouring against Prague's constitutional centralism.

"The man who undertook to air all these grievances, attacking Novotny and his supporter, was Alexander Dubcek, first secretary of the Slovak Communist Party organization and member of the Presidium of the Communist Party of Czechoslovakia. He started his campaign at the meeting of the latter party's Central Committee in October 1967, continued it in December, and finally, on January 5, 1968, was elected first secretary of the national party in Novotny's place, however, who remained president of the republic, did not accept his defeat and planned a military coup to restore his

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8. Philip Windsor and Adam Roberts, Czechoslovakia 1968: Reform, Repression and Resistance (London: Chatto and Windus, 1969), p.11.

authority. This plan failed, and on March 22, his resignation from the presidency was announced. Eight days later General Svoboda, who had been minister of defense from 1945 till his dismissal on Stalin's demand in 1950, was elected president".<sup>9</sup>

The new leadership, whose liberalizing and independent spirit was made clear in the "action programme" of April 10, 1968, proclaimed that Czechoslovakia would remain a socialist country and a loyal member of the Warsaw Treaty Organization and of the Council of Mutual Economic Aid, but that it would aim at a "socialism with a human face". It abolished the censorship; released political prisoners and promised them moral and material reparations; and proclaimed its resolve to transform the unitary state into a federal one without delay.

The Dubcek leadership began practical steps toward political, economic and social reforms which held out the prospect of a better life for the Czechoslovak people. In addition to these internal reforms, the Dubcek leadership called for politico - military changes in the Soviet dominated Warsaw Pact and Council for Economic Mutual Assistance. The leadership affirmed its loyalty to socialism and

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9. The Europa World Year Book, 34th Edition, Vol.1.

the Warsaw Pact but also expressed the desire to improve relations with all countries of the world regardless of their social systems.

An action programme adopted in April 1968 set guidelines for a modern, humanistic - socialist democracy which would guarantee freedom of religion, speech, press, assembly, and travel; insulate the government from the Communist Party; create independent courts, introduce multiple choice, secret ballot elections, and effect economic reforms. Thus, Dubcek became a popular national figure and the first Czechoslovak communist leader to enjoy broad public support.

"Czechoslovakia's refusal to have Soviet divisions stationed on its Bavarian border, increased Moscow's suspicions about the reliability of the new leadership. Moscow noticed also that Dubcek avoided proclaiming attachment to the two basic tenets of Marxism-Leninism: "democratic centralism" (i.e., Communist Party predominance) and "proletarian internationalism" (i.e., Soviet leadership of the socialist camp)".<sup>10</sup>

These internal reforms and foreign policy statements had created great concern among Warsaw Treaty Organisation members. On the night of August 20, 1968 Soviet, Bulgarian, Hungarian, Polish and East German troops invaded and occu-

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10. Ibid.

piet Czechoslovakia. The Czechoslovak party and Government immediately declared it as an invasion and in violation of Socialist principles, international law and the UN charter. The principle Czechoslovak leaders were forcibly and secretly taken to the Soviet Union. Ultimately, a treaty was signed which provided for the "temporary" stationing of an unspecified number of Soviet Troops on Czechslovak soil. In addition to this, the Czechoslovak leadership was forced to apply strict censorship to all public media and to curb all reforms.

By October 1969, Soviets had achieved their basic invasion objectives : The Czechoslovak liberalization movement was dismantled, elements of the Orthodox Communist party were back in control and Soviet troops remained stationed in Czechoslovakia. Thus, Czechoslovak domestic and foreign policy was brought into line with Soviet policies. The emphasis on centralized economic controls gradually reduced some of the authority which the Slovak national government had gained in constitutional reform.

Mr. Kapic, First Secretary, Czech Embassy expresses that although, the Czechoslovak struggle to preserve a degree of national independence and freedom went on, though in more subdued ways than in August 1968 and modified by a

series of concessions, while Russian presence continued to be very intense.

Mr. Klabo, ambassador, Slovak Embassy expresses the view, that the, uprising remained subdued for 20 years because of the manner in which the so called normalization had gone through and definitely also from the fact about comparatively high standard of living which did not support the need for urgent action in the field of human rights and freedom.

The uprising that remained subdued for 9 years, took shape in the form of Charter 77 movement, named after the document which appealed for human rights to the Czechoslovak government.

#### **CHARTER 77 MOVEMENT**

"On January 1, 1977, the Charter 77 movement issued its first manifesto criticizing the Czechoslovak government for failure to implement human rights provisions of documents it has signed. The protests of several hundred dissidents calling out for human rights associated with the organization of Charter 77 were repressed by the Husak regime, Vaclav Havel, the internationally recognized Czech playwright was among the pioneers' of the charter 77 movement named after the document issued in 1977, Charter 77 is a

unique document because it appeals to the government and to its own laws".<sup>11</sup>

Charter 77 included some of the 1968 "reformers" who were frustrated in their attempts to give socialism a human face, but it also had a broader, more anticommunist group of signatories. Charter "presented a challenge of a new kind, more ethical and less political than its predecessors".<sup>12</sup>

The man who reluctantly emerged as the leader of the movement was Havel. The Civic Forum, the revolutionary political heir to Charter 77, is based on the same fundamental principles and seeks to revive the sense of personal responsibility lost in a society so long dominated by a dead, utopian ideology that systematically deprived the individual of free thought and self-awareness.

Thus, two important aspects of Charter 77 and Civic Forum, are the protection of human rights and the restoration of the traditions of the Czech and Slovak peoples.<sup>13</sup>

A combination of various influences led to the erosion and fall of the communist monopoly, including the distinct devastation of the socialist economy, Gorbachev's succession in the Soviet Union, weakening ideological pressure, the

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11. Ibid.

12. H.Gordon Skilling, Charter 77 and Human Rights in Czechoslovakia (George Allen Unwin Ltd., 1981), p.178.

fall of Berlin Wall, and the growing discontent of the younger generations with the political and ecological situation. When the communist regime brutally intervened against a student demonstration held on November 17, 1989 at the occasion of the fiftieth Anniversary of the Nazi repression of Czech college students, this step evoked an avalanche of exasperation. The communist system caved in at the close of 1989, which was eloquently confirmed by the election of former dissident Vaclav Havel as President of the Republic on December 29, 1989. The possibility of democratic development was once again opened to Czechoslovakia.

#### **SLOVAKS AND CZECHS : AN UNEASY COEXISTENCE**

No historical evolution in complete without throwing light on the uneasy coexistence of the Czechs and Slovaks in the 19th and 20th centuries.

In the history of Czechoslovak statehood a constant and fundamental problem has been the definition of the relationship between the two nations, Slovaks and Czechs. The First Czechoslovak Republic, a multinational state, was proclaimed in Prague by the Czechoslovak National Council on 28 October 1918 and approved by the Slovak National Council in Turciansky Svaty Martin on 30 October. It was in some ways a marriage of convenience brought into existence by the First



World War, the rapid flow of events at its close, and the tension and uncertainty of the time. Yet it was clearly the only viable alternative the Slovak nation had if it was to survive in the twentieth century.

In fact, to comprehend fully the Czecho-Slovak marriage, its rocky course in the 1920s and 1930s, the separation in 1939 by the establishment of an independent Slovak Republic, the reunion in 1945, the federal system established in 1968, and events since then, one must look back into history and recognize the profound differences between Slovaks and Czechs created by their distinct historical experiences. The initial euphoria of the creation of a new state could not erase these differences which were often underestimated on the Czech side. Almost one thousand years of Hungarian rule had created great diversity in economic activities, social life, the degree of devotion to religion, mentality, tradition and historical consciousness as between Slovaks and Czechs.

#### **DISCOVERY OF DIFFERENCES**

In 1918 the Czechs soon discovered that there were indeed fundamental differences of character between the two closely related people. The Slovaks tended to be a withdrawn, deeply religious, people, still very much imbued with

the values of a feudal, agrarian order. The majority belonged to the Roman Catholic faith and looked to their local parish priests for guidance in all significant issues, personal, social and political. Underdeveloped and backward, the Slovaks lacked economically enterprising individuals; people tended to be timid in embarking on new ventures. Under the heavy yoke of magyarization the Slovaks had not had much opportunity to become acquainted with business, which had been to a great degree under Magyar, Jewish and German control. Thus the socio-economic structure had an agrarian base with a solid class of peasants and rural labourers and with no large industrial proletariat or bourgeoisie in the urban area.

The Czechs, on the other hand, had not been crushed beneath their Austrian-German overlords and had had an opportunity to expand and prosper economically and culturally, and even politically, under Austrian rule. They were free-thinking and socially conscious in the sense that they had long been a highly organised society with many political and cultural associations.

#### SLOVAKS AND CZECHS

In Slovak-Czech relations a major breach between the two nations was caused by Stur's successful establishment of

Slovak as the literary language of the Slovaks. Whereas for the Czechs the language separation was a tragedy.

"The introduction of *Sturovcina* as the new Slovak language was called, remained a bone of contention between Czechs and Slovaks for many decades and separated the two nations linguistically and culturally".<sup>13</sup> In the post-1849 period Czech-Slovak reciprocity almost completely disappeared. There was almost no interest among Czechs in Slovak affairs,. Until the 1880s Czech society had little contact with and therefore little knowledge of the Slovaks.

#### THE FIRST REPUBLIC IN RETROSPECT

"At the Paris Peace Conference the Czech position was clear and rational. Alone they were weak in numbers but united with the Slovaks, they could present the proposed Czechoslovakia as a viable state to succeed the Hapsburg Empire. As per the Slovaks it was a far better option to work with a kindred Slav nation than to remain locked in a desperate and hopeless struggle for survival with the Magyars. A political union, although entirely new in the history of both nations, seemed a logical and desirable

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13. Skilling, n.3, p.69.

solution".<sup>14</sup>

The union of 1918 was not able, however, to erase centuries of entirely different historical experiences and the resulting profound differences of outlook of the two nations. The First Republic was initially viewed as the beginning of a democratic union shared in equally by Slovaks; they considered themselves, however, a separate nation and not simply a branch of the Czechoslovak nation.

The first clash came with the arrival of thousand of Czechs into Slovakia in 1919 as civil servants to help organize local administration and a school system and to help establish and educate the Slovaks. Later resentment grew when the Slovaks had educated a generation of young Slovak professionals and no positions materialized for them. Hostility grew towards the Czechs who occupied positions in the civil service, the educational system at all levels, the gendarmerie, the army and business. There were other grievances, including a distinct feeling that Czech businessmen, for whom Slovakia abounded with raw materials, rich resources and cheap labour, were seizing the chance to turn a profit. This was compounded by the depression and the unemployment and other hardships which resulted. Large numbers

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14. Ibid., p.72.

of Slovaks were immigrating in the 1930s for economic reasons.

When the Slovaks began to feel their rights were no longer being upheld, the gap between the two people began to widen. One of the key problems was the disagreement over the exact nature of Czechoslovak unity. A questionnaire sent out by Prudy in 1914 and published in 1919, made very clear that the Czechs believed in the idea of 'Czechoslovakism'. For them this meant the diminishing of differences between the two people who, they felt, came from the same roots and had originally been one race with Czech as their literary language. Masaryk, who claimed to speak for the Slovaks at the peace conference at the end of the First World War, asserted that the Slovaks 'are Bohemians in spite of their using their dialect as their literary language'.<sup>15</sup> As for Slovak Czechoslovakophiles, they thought of themselves as either 'Czechoslavs' or as an appendage of the 'Czechoslovak' nation, separated by accident only. But the majority of Slovaks saw themselves as a distinct nation, with their own language, and entitled to the same rights as the Czechs in the new state.

Yet there were advantages to the union. The agrarian

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15. Ibid., p.74.

reforms which were enacted provided many thousand of otherwise landless Slovak peasants with land. Since Czechoslovakia was the most democratic of all the states which had emerged from the ashes of the Austro-Hungarian Empire the Slovaks enjoyed the same democratic rights as the other citizens of the country.

### THE SLOVAK STATE

The emergence of a separate Slovak state in 1939 and its endurance until 1945 remains a very controversial question. Nonetheless, during this period, Slovaks experienced great national development and the intelligentsia came into its own, more so than in the past. Economic conditions far surpassed those under the old Republic. Every sector, whether economic, social, cultural, industrial or agricultural, made gains in the war years. The clerical regime of Monsignor Tiso sought to preserve at least some degree of autonomy, it gradually gave way to German pressure and became no more than a puppet regime under Nazi control. "Yet Tiso gave the Slovaks their most cherished and long sought after goal of national independence, albeit in a formal rather than in a real sense, and also a feeling of economic progress, as a haven of peace and prosperity in war-torn Europe. It was this side of the Slovak state which was

nostalgically remembered, and is still remembered, even today".<sup>16</sup>

There was, however, an alternative, expressed in the emergence of Slovak opposition to Nazi rule and a partisan movement which eventually culminated in the Slovak National Uprising of 1944, a courageous although premature attempt to deliver Slovakia from Nazi control. It was a rare event in history that a people rose in revolt against their own national state and set as their objective the restoration of unity with the Czechs in a single Czechoslovak state.

"By 1945 Gottwald fully accepted the notion of a restored Czechoslovak republic, including both Slovaks and Czechs, as the Slovak National Council demanded".<sup>17</sup>

### COMMUNIST RULE

In 1945, the communist favoured not only the recognition of the equality of the Slovaks as a nation but also, as we have seen, far-reaching autonomy for Slovakia. Once in power the communist party veered away from this position, steadily limiting the authority of the Slovak republic, and after 1948 subjecting Slovakia totally to centralized Prague rule.

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16. Ibid., p.76.

17. Ibid., p.77.

The subsequent rule of Antonin Novotny as first secretary brought little change in the Czech-Slovak relationship. His personal indifference to the Slovak question and the continuance of the asymmetrical system only served the growth of Slovak national consciousness below the surface. During the sixties, however, as Novotny's rule disintegrated, the seeds of a new Slovak awakening were planted by intellectuals and by political leaders such as Alexander Dubcek.

This culminated in the Prague Spring in 1968 and reached fruition ironically after the Soviet occupation. The constitutional law signed on 28 October 1968, the 50th Anniversary of the founding of Czechoslovakia, created a new federal republic and two national republics, Slovak and Czech, which were to enjoy equal and wide autonomy. This seemed to give the Slovaks the equivalent of national sovereignty within the united Czechoslovak state.

The Czech-slovak marriage, in spite of the trials and tribulations of the past 70 years, nonetheless remained as the only viable, working solution for the two nations. Discontent persists among both Slovaks and Czechs, and ancient antagonisms have not disappeared, and have often been replaced by new ones. There is, however, no thought on either side of a new separation or divorce. In a more open



and democratic Czechoslovakia, if it comes, only the nurturing of a spirit of co-operation and mutual understanding between two people with such separate histories and sharply different outlooks may offer the key to a more settled and stable union and a less uneasy coexistence. But, however, this did not happen and after the collapse of communism the two republics disintegrated leading to the formation of two separate independent nation states.

## CHAPTER III

### VELVET REVOLUTION AND CZECHOSLOVAK REPUBLIC

The year 1989 saw the collapse of communism in Czechoslovakia and elsewhere in the region. Ruled by a leadership that was widely regarded as one of the most resistant of the East European countries to the changes sparked by Soviet President Mikhail Gorbachev's policies, Czechoslovakia seemed an unlikely candidate to follow Hungary and Poland on the road to radical reform and yet, once the process of change began, Czechoslovakia did not lag behind and took the lead with effort to restore a multiparty democratic political system and a market economy.

The "Velvet Revolution" as the mass demonstration that followed the brutal police attack on peaceful student demonstrators on November 17, 1989, came to be called, led to the resignation of the conservative Communist party leadership of Milos Jakes, the renunciation of the party's leading role and the formation of the country's first non-communist government in 41 years. The victory of the revolution was capped by the election of dissident playwright and long time human rights activist, Vaclav Havel, as President of the republic in late December 1989. Free elections held in June 1991 legitimized this government and set the stage for the

changes needed to consolidate democratic government to reform the economy and to reorient the country's external economic and political relations.

According to Otto Ulc, "The legitimacy of any political system imposed from the outside is precarious. Czechoslovakia's political system is no exception. The 1968 reform movement known as the Prague Spring was crushed by Soviet tanks implementing the Brezhnev doctrine of "Socialist fraternal assistance".<sup>1</sup>

After 1968, the first public meeting of opposition groups to take place with official permission was on 10th December, 1988. Such meetings were allowed as long as they were no threat to stability of the Communist Party and other voices were also heard without interference. It looked as if the crusty Czechoslovak regime at last was loosening up. Czechoslovakia faced many of the economic and political problems that threatened the survival of Communist Systems elsewhere in the region. And, beneath the surface, there were also important changes at several levels of Czech and Slovak Society between 1987-1989. As long as the living standards and human rights did not suffer much, the warnings were ignored, but as the fabric began to deteriorate

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1. Otto Ulc, "Czechoslovakia : Realistic Socialism?", Current History (Philadelphia), November 1989, p.389.

rate, outside factors were important catalysts for the downfall of communism in Czechoslovakia. But national factors, including the economic and political crisis and the actions of groups and individuals working for change, undermined support for the system and set the stage for dramatic popular repudiation of the regime that occurred in November.

Although Czechoslovakia did not experience the acute economic crisis, the economic performance declined in the late 1970's and the 1980's. By the late 1980's, popular dissatisfaction with the stagnation in living standards and economic inefficiency was watched by official recognition of the need for more fundamental economic reform.

"Economic mismanagement by the Communist Party has led to a shortage of goods in the market, the government explains it, as the raiding of Prague shops by the tourists. Actually it is because of little investment, run-down machinery, shortage of spare parts and a dramatic drop in the supply of things that can be sold for hard currency with poorly qualified opportunists in charge at all levels of responsibility the economy registered negative growth in 1981".<sup>2</sup> The policy labeled "realistic socialism" faced

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2. Valtr Komarek, "Czechoslovakia, suddenly, its worth listening", The Economist (United Kingdom), December 17, 1988, p.52.

growing difficulties. The negative impact was above all caused by the fact that over the years, a number of unsolved problems had accumulated: socio-economic, material, technical, legislative, legal, pedagogic, educational and further problems including the administrative bureaucratic methods of problem solving.

In Czechoslovakia, the current call for modernization seems to validate the Marxist-Leninist principle of economic materialism: the material base determines the superstructure. If the economy were working correctly there would be no need for glasnost and perestroika. The negative trends reflected earlier had not been reversed and the goals of modernization had not been met. Limited doses of glasnost reveal the symptoms rather than causes of the unpleasant reality; inflation exceeds 10 percent, export targets are not met and products fail to compete not only on capitalists but also on East European markets. The Czechoslovak foreign trade structure is starting to resemble that of an underdeveloped country.

On the positive side, the relative prosperity and political tranquility in agricultural sector pose no threat to status quo. Considerably less pressure in the direction reform is generated in the Slovak part of the country. During the 20 years of federation the economic growth in the

Slovak Socialist Republic substantially exceeded that of the Czech Socialist Republic and the Czechs always grumbled about the favouritism in allocating resources to the smaller Slovak neighbour.

As in the economic sphere, political developments in Czechoslovakia in the 1970's and 1980's were not as dramatic as those in Poland or Hungary. Particularly, after Milos Jakes replaced Gustav Husak as head of the Communist Party in December, 1987, changes were evident at both the mass and elite levels.

However, the monopoly of a single political party has proven to be an expensive error that had led to a profound crises. Otto Ulc expresses that, "The so-called Iron concept of socialism left no room for environmental considerations and after decades of neglect there is alarming deterioration".<sup>3</sup> Before the late 1980's, active opposition to the regime was limited largely to the small circle of people associated with Charter 77 who had challenged the regime's human rights violations. Dissent among religious activists and young people, small groups of sociologists, lawyers, scientists became evident in the early 1980's, that the Czech and Slovak citizens began to challenge the system more openly. By 1989, illegal independent

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3. Ulc, n.1, p.392.

groups, including the young people and even many of those who remained in the official world were expressing openly their dissatisfaction with the regime. The impact of these experiences became evident in November 1989, when the brutal police attack galvanized the nation, and well known opposition groups allowed these individuals to organize quickly to use the momentum generated by mass protest to oust the communist leadership. Civic Forum, the grass roots organization that emerged to negotiate with the government on the Czech lands, and the Public Against Violence, its Slovak counterpart, thus had their roots in the opposition that had developed over the preceding decade. The collapse of communism occurred over several weeks in Czechoslovakia. As a result, supporters of the "Velvet Revolution" had to take responsibility almost immediately for running the government, as well as for instituting fundamental reforms in political organization and economic structure and policies, and foreign policy. Vaclav Havel, leader of the nation and members of the Government of National Understanding, Czechoslovakia's first non-communist dominated government in 41 years, embarked on the process of restoring multiparty democracy, recreating a market economy and returning to European values. This, according to Otto Ulc "shows that Dubcek erred not in substance but in timing: his reforms

were prematurely correct".<sup>4</sup>

Thus, there were many factors - accidental happenings and political trends - that came together to create that "Velvet Revolution". The person who started it was Mikhail Gorbachev. The ideas underpinning the clean sweep of the communist dominion in Eastern Europe flowed without question from perestroika and glasnost. Ultimately, however, it was a uniquely Czechoslovak reaction to the prospect of reform in Eastern Europe and to the dramatic change in Soviet foreign policy under Gorbachev that formed the character of their resolution and led to Vaclav Havel's election as the Czechoslovak president on December 29.

According to Mr. Klabo, Ambassador, Slovak Embassy, "The causes for the Velvet Revolution could be from political point of view traced in a struggle between two totally different approaches of society management, either let the people democratically decide over that issue or "on behalf of people somebody else to do the same". A practical aspect of that, reasons could be found in dissatisfaction of society over the fulfillment of promises given to it by the then leadership relating to the living standard and other aspects of society life. The basic reason was the gradual degrada-

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4. Ibid, p.389.



tion of performance of state-run economy which was not capable to cope with requirements of the third millennium. Immediate reason was brutal action of police force against student demonstration which provoked huge wave of discontent throughout the whole country which finally swept away the then establishment. On the basis of this it could be said that Velvet Revolution was a result of continuous political process which cannot be distinguished from what was happening in other Eastern European countries as well as result of various immediate factors in my society".<sup>5</sup>

Mr. Kapic, First Secretary, Czech Embassy says that, The Velvet Revolution was a continuous process for 20 years. The inner conditions and causes of the same are:

- i) The governing Communist Party had completely broken away from masses and lived in glass houses, only people who had close contact with the party were its members, people who were friends of its members and who had professional or moral quality. Thus, this started the dissident movement. The movement enjoyed support from outside the party and abroad. Thus, the erosion of party was a continuing process.

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5. Klabo, "Excerpts from an interview of Mr. Klabo, Ambassador, Slovak Embassy, New Delhi", Appendix I, October 20, 1993.

- ii) There was a gradual erosion of the secret police which was the key stone of party power.
- iii) These along with other factors interacted with the outside conditions. People in Czechoslovakia responded well to the developments in Russia i.e. to perestroika and glasnost. Gorbochev was chief of the party in Russia and architect of perestroika and glasnost and thus, Czechoslovakia's leadership was orthodox as compared to him".<sup>6</sup>

The surprisingly rapid collapse of communist power in Czechoslovakia is a metaphor for the failure of the stalinist system to secure Eastern Europe as a 'cordon sanitaire' for the Soviet Union after world war II. When Gorbachev assumed power, he did not move sooner to encourage his reforms within the Czechoslovak party. This was so probably because his just principle in dealing with Eastern Europe was that the Soviet Union would no longer interfere in the internal affairs of its allies and therefore he let things go and twist the Czechoslovak communist party to reform itself and from his point of view even its economy was least troubled in Eastern Europe. However, the conditions were

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6. Kopic, "Excerpts from an interview with us. Mr. Kopic, First Secretary, Czech Embassy", Appendix II, January 16, 1994.

created within Czechoslovakia and Gorbochev's perestroika worked as a catalyst for Czechoslovak's to rid themselves of communist rule. But it was the intellectuals gathered first under the umbrella of Charter 77, later giving birth to Civic Forum, who gave the "Velvet revolution" its gentle and even spiritual character; they made possible the remarkably smooth transition toward a free society.

### Charter 77

The history of Charter 77 brings together many other elements that affected Czechoslovak attitudes over the past decade and prepared the society for the events of 1989. In particular, the 1975 Helsinki Final Act played a vital role in providing the Czechoslovak people with political leverage and hope. It also justified Western support for the movement and the mounting number of parallel dissident and opposition groups that became bolder as the decade of the 1980s progressed.

Charter 77 included some of the 1968 "reformers" who were frustrated in their attempts to give socialism a human face, but it also had a broader, more anticommunist group of signatories. Charter "presented a challenge of a new kind, more ethical and less political than its predecessors".<sup>7</sup>

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7. H.Gordon Skilling, Charter 77 and Human Rights in Czechoslovakia (George Allen Unwin Ltd 1981), p.178.

Founded in January 1977 by a group led by Vaclav Havel, Jan Potocka and Jiri Hajek in response to the Helsinki Final Act, Charter 77 declared itself to be:

"a free, informal, open community of people of different convictions, different faiths and different professions united by the will to strive individually and collectively for the respect of civil and human rights in our own country and through the world. Charter 77 is not an organization; it has no rules, permanent bodies or formal membership. it does not form the basis for any oppositional political activity".<sup>8</sup>

This was and continued to be a very new type of "community" - subtle, anti-party, anti-ideology, ethical and ultimately very powerful. So powerful were its words, ideas and values, and so strong the mutual trust, sense of community and internal communications that Charter 77's work contributed mightily to the simultaneous demoralization and collapse of the Communist Party.

Prior to 1989 most Western experts saw two basic models for reform in Eastern Europe. One model was Hungary, where change was led by the Communist Party reformers. The other was Poland, where the collapse of communist rule was carried out by two strong national institutions - the church and Solidarity. One of the major miscalculations

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8. Charter 77 Declaration, January 1, 1977.

that experts made about Czechoslovakia was in underestimating the capacity of the Charter 77 movement and other intellectual and dissident groups to wrest power from the communists.

These dissident leaders simply claimed to be seeking a dialogue with the communist rulers to discuss, for example, how the government would institute practical changes that would enable it to comply with the Helsinki Final Act - a seemingly innocent, almost native objective. But as the former dissident and newly named foreign minister, Jiri Dienstbier, indicated on several occasions, this was essentially a call for the overthrow of the old regime. The old guard communists finally understood better than anyone that Charter 77's game was a direct challenge to communist rule; this was no mere reform movement.

The man who reluctantly emerged as the leader of the movement was Havel. The Civic Forum, the revolutionary political heir to Charter 77, is based on the same fundamental principles and seeks to revive the sense of personal responsibility lost in a society so long dominated by a dead, utopian ideology that systematically deprived the individual of free thought and self-awareness.

Thus, two important aspects of Charter 77 and Civic

Forum are the protection of human rights and the restoration of the traditions of the Czech and Slovak people.

Indeed two of Masaryk's objectives in 1918 were to reduce the role of the Catholic Church and of German culture and economic power in Czechoslovakia. Similarly, just as the Czech nation has feared German domination in the past, the Slovaks have harbored anxieties about the Hungarians. It remains to be seen whether the end of communism in Slovakia and Hungary will become a constructive or debilitating factor in the strengthening of the Czechoslovak nation.

Finally, Czechoslovakia's own communist government and that of the Soviet Union over the past forty years have manipulated the relations between Czechs and Slovaks for their own purposes. The period since 1968 has been a particularly difficult one for Czech/Slovak relations. Charter 77 was principally a Czech and Moravian phenomenon, while the dissidence in Slovakia was church-centered. Slovak students and intellectuals clearly played an important role in the liberation of Slovakia with their Public Against Violence organization - the equivalent to the Czechs' Civic Forum. But the different ways in which the Slovak and Czech people have dealt over the past decade with communism will add one more complexity to the troubled relations between these two principal nations of the Czechoslovak state.

The events of the autumn of 1989 that eliminated 41 years of communist rule were unplanned and unexpected by all parties involved. The young people and students who initiated the demonstrations on November 17 and afterward were following an instinct, a pattern set by earlier demonstrations that the larger the numbers in the streets of Prague, the more dramatic the "vote".

The overthrow was a surprising consequence of the failure of the Czechoslovak Communist Party to reform itself. The revolution was a popular and peaceful uprising driven and controlled by spontaneity and improvisation.

But if Stalin were to ask from his grave who destroyed communism in Czechoslovakia the long and eclectic list would have to include - in addition to St. Agnes and St. Wenceslas - Thomas Jefferson, Tomas Masaryk, the Muses, the Dalai Lama, history's first Slavic pope, John Paul II, the seemingly unquenchable Mikhail Gorbachev, and of course, the irresistibly refreshing Vaclav Havel and his band of gentle revolutionaries.

Civic Forum has emerged as the most single-minded and uncompromising opposition force in Eastern Europe with Vaclav Havel as its President.

## GOVERNMENT RESPONSE

The Government initiated following steps:

- "(a) Abolished constitutional guarantees ensuring the Communist Party's "leading role" in society.
- (b) Pledged to form a new Cabinet that includes non-Communist ministers.
- (c) Admitted that the 1968 Soviet invasion was a mistake.
- (d) Eliminated mandatory Marxist-Leninist education.
- (e) Started to dismantle the Iron Curtain and removed all travel restrictions.
- (f) Relaxed censorship of the news media, books, films and plays.

## WITH THESE STEPS THE OPPOSITION WAS NOT SATISFIED AND STILL INSISTED FOR THE FOLLOWING:

- (a) The resignation of President Gustav Husak
- (b) Laws guaranteeing freedom of the press and assembly
- (c) Regulations spelling out procedures for free elections
- (d) Abolition of the People's Militia, the party's private army
- (e) The release of all remaining political prisoners
- (f) An open, market-oriented economy."<sup>9</sup>

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9. "So little time, so much to do", The Economist, Vol.314, January 20, 1990, pp.49-50.



## INITIAL TASKS FOR THE NEW SOCIETY

Thus, changing the monolithic government did not automatically produce a new structure, it merely provided the right conditions. The economy remained as before and the well established administrative system, with its hierarchy and set provisions for all individuals, did not hold much hope for a rapid change. Moreover there had never been throughout the whole of history a transition from a totalitarian system of the communist type to democracy.

So the main task was to democratize the society in its entirety. Society was confronted with a problem and is still in the process of solving it - how to provide an institutional basis for democracy. A multi party system, elections, division of power and responsibilities, transfer of rights from the centre to local authorities are the various ideas providing an institutional basis for change. This is a long process for proposals for changing the approach of the individual must be natural, progressive and stable.

According to Miroslav Polreich, "The centrally controlled economic system with its predominant features of industrial feudalism and state ownership cannot be transformed to a market economy by a decree. It must be contingent upon the exchange of goods, which is unthinkable in a time of monopolistic production and an extreme shortage of

goods to exchange. The present system attempts in a more or less administrative way to control the economy and thus lacks the rational basis of natural market responses. Thus, finding a solution for the problem of privatization of the economy or transition to a market economy is therefore a long term process".<sup>10</sup>

The main aim of democratizing society and making the economy efficient, it is also important to consider social responsibility. In this respect, the creation of a free person as a powerful personality is the main aim. Since for so many decades, the centrally organized society suppressed the individuals integrity and personality.

Thus, the pace and utter disbelief of the Velvet Revolution has subsided and in Prague's second spring it has been superseded by the emerging democracy - a society full of the good, the bad and the ugly.

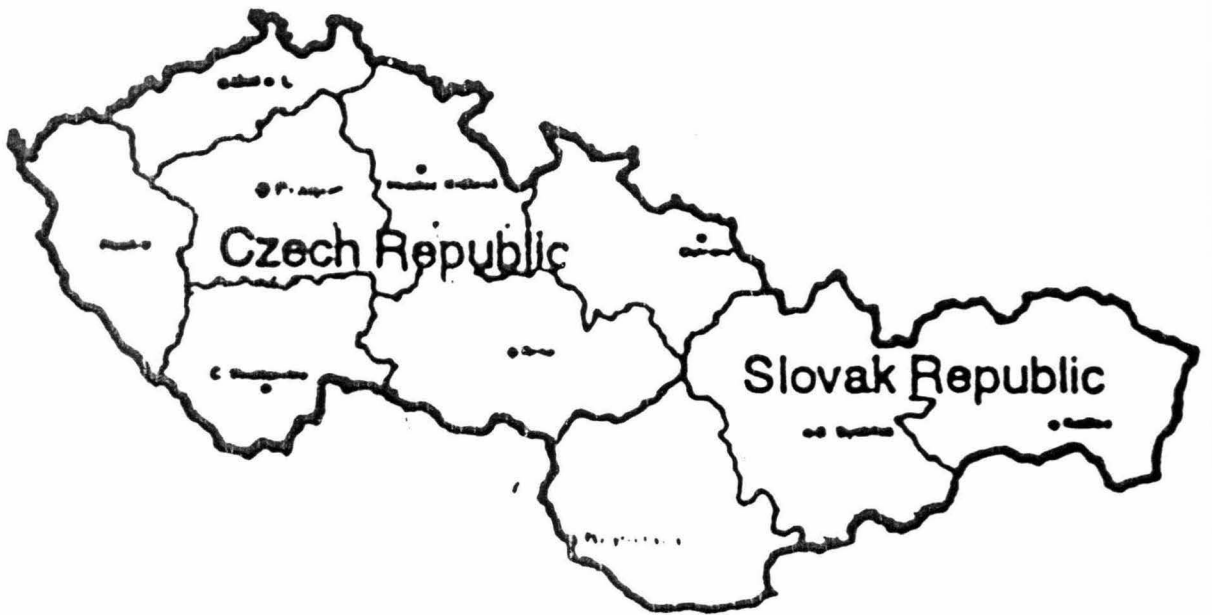
On the plus side are all the democratic developments. The reformed parliament with temporarily appointed deputies has already established itself as a genuine decision making legislature. There is an expanding, diverse, avidly read press. The trade union are becoming independent organisa-

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10. Miroslav Polreich, "The Czechoslovak Revolution - Origin and Future Prospects", International Relations (London), 1990, p.133.

## Czech and Slovak Federal Republic

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tions. The nomenclature system of party controlled appointments is being dismantled. In this process two features stand out. One is the holding of proper competitive elections on June 8; the first since May 1946 and the other is the popular appeal and stature of the president.

On the negative side, the government has failed to clear out many top officials from the security forces, army and police. There are uglier aspects too. In Slovakia, extreme right wing separatist demand the re-establishment of the independent Slovak state set up under Hitler's aegis in 1939. In the year 1990, the federal assembly rejected the country's name, Czecho-Slovakia with a hyphen and finally agreed on Czech and Slovakia federated republic (see map). Thus, the durability of Czechoslovakia's democratic transition will be severely tested in the coming months.

#### ROLE OF CIVIC FORUM

The motor coordinating and directing the movement was Civic Forum. Established just two days after the student demonstration at a meeting in a theatre, it brought together all the opposition forces under one umbrella with Vaclav Havel as its chairperson, has come to embody the authority and power that once belonged to the communist party.

Prague's new power holders debate the role and future of the forum. "Whether it should evolve into a political

party, or endorse like minded groups and individuals, or merely serve as moral guide during the transition to full democracy and then wither away is a question that boggles one's mind. One argument for retaining the forum as broad democratic front is that parties and politics have been tainted by association with communism. Another obstacle to turning the forum into a party is that the range of opinion under its umbrella is too broad for more than a minimalist consensus. However, it emerges as a party in Czech and its counterpart Public Against Violence in Slovakia".<sup>11</sup> The country during the transition period faced some very severe structural problems - too much clapped out heavy industry, too little modern technology, a weak service sector, a severely polluted environment for which Civic Forum's put faith an impressive seven point programme, 'What we want', which called for a democratic political system, a mixed economy, social justice and solidarity, protection of environment including 'a change in life styles' and the development of culture, science and education in ways which develop 'high moral responsibility'.

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11. Devkumar Ganguly, "Some observations relating to the Current Political Development in Czechoslovakia and other Socialist Countries in Eastern Europe", Party Life (New Delhi), Vol.26(5), May 1990, pp.19-20.

Thus, according to Vaclav Havel, "the civic forum's purpose is to be a bridge between the totalitarian system and true pluralistic democracy".<sup>12</sup>

#### **TRANSFORMATION OF A POST-COMMUNIST ECONOMY**

The dramatic events of November 1989 opened the door to political democracy and initiated the country's transformation from a centrally planned economy to one based on market principles. The Parliament approved a radical reform programme in September 1990. This programme which was to be put into effect from January 1, 1991, called for the privatization of state assets, the liberalization of prices and foreign trade relations, partial convertibility of the Czechoslovak crown and budget reforms. The year 1990 was one of transition: the central planning administration was dismantled and work began on establishing a new legal framework. This meant that whilst the old rules of the game were no longer valid, the new ones were not yet sufficiently developed to meet the challenges inherent in a market system.

Czechoslovakia was, before the Second World War, a democratic country with a highly developed economy. It

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12. Vaclav Havel, "What have you done for us lately", Time (New York), December 11, 1989, p.42.

ranked sixth in the world per capita production. The Stalinist command economy however has set that country back to the level of the least developed countries of Western Europe. During the past 40 years, the Communist regime in Czechoslovakia had efficiently wiped out all vestiges of private enterprise by nationalizing virtually the entire economy. As a result the distribution of businesses by size remained old and large, state owned companies produce 90% of national output, while new, very small private businesses are only beginning to appear.

Most manufacturing takes place in huge, inefficient, unproductive state owned enterprises that are losing their markets in the Soviet Union and other socialist countries. Many are over staffed and have obsolete technology and deteriorating facilities. Services and retail activities are still provided largely by state owned companies, but some micro enterprises and small businesses are now emerging.

Estimates of current number of private businesses in Czechoslovakia, now the Czech and Slovak Federal Republic (CSFR), are incomplete and unreliable. The government estimates that about 500,000 small business had been set up by the end of 1990, but many of them are inactive.

## MACROECONOMIC PERFORMANCE

"Czechoslovakia entered the 1970's with an economic structure that was fundamentally different from what we would consider to be "normal" with respect to its level of economic development, size and resources, as well as the reformed traditional system of institutions, rules and actions of directive central planning. It also entered the 1970s with the memory of unsuccessful attempts at reforming the system in the kinds of the citizens and with experience that it is worthwhile to implement balanced macro economic policies".<sup>13</sup>

At the beginning of the 1970s the performance of the Czechoslovak economy was satisfactory on the whole and the output growth rate was relatively high. The external economic environment was one of the most important determining factors for the performance of Czechoslovak economy during that period.

At the end of the 1970's, economic policies already gave preference to transferring real resources from the domestic economy to the foreign sector. But gradually, there was a slowing down of the rate of growth of the volume of

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13. C.Josef Brada, "Economic transition of Czechoslovakia from plan to market", Journal of Economic Perspective (Nashville, USA), Vol.5(4), Fall 1991, pp.171-78.



imported raw materials. A new wave of strong disturbances occurred on the international capital markets in connection with the further destabilization of crude oil prices. The unfavourable consequences of these external disturbances on the Czechoslovak economy were reinforced by the continuing decline of Czechoslovak exports, primarily due to domestic causes. At the beginning of the 1980's, economic growth in Czechoslovakia stagnated. In 1983 the stagnation of the early 1980s was overcome and growth of output began to increase. Nevertheless, from 1984, contrary to the intentions of economic policies, a trend toward a drop in the rate of the aggregate product began to reappear. In the longer-term view, we are witnessing the deteriorating output of the Czechoslovak economy, which is occurring during a period of relatively favourable external conditions.

Thus, there was a strategic importance of economic reform and this was impossible without profound restructuring and the gradual movement of the developmental path toward a normal structural profile and its organic changes.

According to Vaclav Klaus, Minister of Finance of the Czechoslovak Federal Republic, "there are four preconditions for change of economic system. First, one must have a clear vision of where to go, second, there must be a pragmatic, viable reform strategy. Third, and very difficult, is to

create political and social consensus in favour of reform and lastly a country must start on the road to reform and Fourth, we have to start".<sup>14</sup>

A theory on transition from a command economy to a market economy does not exist, but an international consensus is developing among economists. Czechoslovakia, to me, seems to be following that specific to Czechoslovak conditions. Joshua Charap and Karel Dyba observed that the key points of reform consist of :

- "- fiscal and monetary austerity at the macroeconomic level;
- creation of a new legal and institutional framework suitable for a market economy;
- liberalization of domestic prices;
- commercialization, demonopolization, and privatization of Czechoslovak industry;
- current account convertibility of Czechoslovak crown for domestic residents.
- creation of an adequate social safety net."<sup>15</sup>

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14. Vaclav Klaus, "Transition - An Insider's View", Problems of Communism (Washington), January-April 1992, p.73.

15. Joshua Charap and Karel Dyba, "Transition to a Market economy: The case of Czechoslovakia", European Economic Review, 1991, pp.581-590.

## DIMENSIONS OF ECONOMIC AND POLITICAL REFORM

The ability of the private sector to expand and operate effectively in the Czech and Slovak Federal Republic depends on the progress of the economic and political reforms that began with the overthrow of the communist regime in 1989. The CSFR has been somewhat slower than Poland and Hungary to adopt and implement economic and political reforms, but those that have been enacted are designed to create conditions more conducive to private enterprise expansion and international trade and investment.

### Economic Changes

Since April 1990, the Federal Assembly has passed a number of laws reforming the economic system. These include:

1. Giving all citizens the right to establish their own businesses without restrictions on the number of employees or the amount of property they can own.
2. Granting equal status to the owners of private, cooperative and state property.
3. Breaking up huge state-owned monopolies and giving state enterprises more flexibility in management and operations.
4. Reinstating the ownership rights of the original owners or their descendants of 70,000 properties expropriated by the Communists between 1955 and 1961. The restitu-

tion law allows property owners or their descendants to claim property forcibly confiscated by the state during this time period.

5. Authorizing (under the "small privatization law") the auctioning of 100,000 small state-owned businesses, such as hotels, restaurants, barber shops, shoe repair shops, and retail stores, to private individuals. The two-round auction limited bids in the first phase to those who held Czechoslovak citizenship after 1948; the second round will accept bids from any potential investors.
6. Authorizing (under the "large privatization law") a three-stage process of privatizing large state-owned monopolies: first by breaking them up into smaller companies, then by transforming them into joint-stock companies owned entirely by the state, and finally by offering shares in these smaller companies to private individuals and foreign investors.
7. Creating a voucher scheme that allows all citizens over 18 years of age to obtain vouchers in the form of non-transferable securities at a nominal cost that can be used to obtain shares in joint stock companies. The shares will be tradable on a stock market that will begin operating in 1991.

8. Removing price controls on most goods and initiating measures to make the koruna (crown) internally convertible.
9. Allowing foreign nationals to set up businesses and obtain both the credit and property needed to conduct their business activities.
10. Creating a social safety net to protect Czech and Slovak citizens from the most serious adverse effects of changes from a command to a market-oriented economy.

All of these changes are taking place within a framework of macroeconomic austerity required by the International Monetary Fund (IMF). These measures include tight monetary policies, budget restraints and anti-inflationary fiscal policies.

In addition, during 1991 the Parliament is working on new laws that will partially privatize the health care system to allow physicians to set up private practices and allow the insurance industry to establish private companies, establish a stock market on which shares for privatized industries can be traded, and overhaul the tax system by introducing a value-added tax (VAT) and a personal income tax in January 1993. The Assembly is also revising the legal framework for business, including laws pertaining to bankruptcy, contract and dispute resolution, anti-trust, inter-

national and domestic trade, and corporate status and is developing international standards of accounting and auditing for public and private companies.

### **REFORM MEASURES**

Actual implementation of broad range reform measures began in January 1, 1991. The most important measures were:

"a) Privatization

The issue of privatization must be interpreted as a process requiring several sequential steps:

Re-privatization and Restitution Small-scale Privatization, i.e., privatization in the context of the entire Czech peoples.

Large-scale Privatization, i.e., privatization in the context of the entire Czech economy.

#### Re-privatization

There was rapid re-privatization of property seized during Communist rule (beginning in 1948). We are aware that this cannot completely undo the damages to individuals, but it represents a conscious minimalization of damages coupled with economic improvement.

#### Small-scale privatization

The proposed privatization package consisted of a rapid auctioning of small properties such as restaurants and work-

shops speedy restitution of certain types of properties confiscated by the previous government.

#### Large-scale privatization

The dismantling of the state-run machine is the key point of the transformation of the Czech economy. The unique system of Vouchers Privatization was implemented: Vouchers equivalent to shares are distributed to the population, who are then free to either cash them in for shares in the given companies being privatized or sell their vouchers for currency. This method is the only one that satisfies the following criteria:

- \* The process must take place quickly.
- \* There must be an equal opportunity for everyone to participate.
- \* The method must be virtually impossible to manipulate and unable to be misused by bureaucratic structures for the purpose of maintaining positions.
- \* The method must represent a baseline for the creation of a climate conducive to individual economic decisions and freedom.
- \* The method must establish spontaneous capital markets, which in turn will create a pressure for their institutionalization.

The only exception should be the public service sector, e.g., telecommunications, railways, health care, educational institutions, etc. They are against a state monopoly of the public service sector also.

Another aspect of Voucher Privatization is the participation of foreign capital. This system excludes foreign capital during the first stage, but enables foreigners to buy shares from Czechoslovakian residents afterwards, thus allowing foreign currency to enter the economy.

b) Foreign Trade Liberalization

The nonexistence of market prices has forced Czechoslovakia to abstain from participation in international trade thus far. The liberalization of foreign trade presumes the liberalization of pricing, and not vice versa. The suggestion that the convertible Czechoslovak crown presupposes the convertibility of our commodities is often opposed. On the contrary, goods will become convertible under the weight of competition which itself relies on the implementation of convertible currency.

In establishing an exchange rate, it should be defined by the market clearing rate. If the exchange rate of the dollar is determined to be markedly lower than the market clearing exchange rate, Czechoslovakia's balance of payments would be substantially burdened. In the event of an increase



in oil prices, for example, foreign debt would increase disproportionately. In addition, a weak dollar would cause an inefficiency in the structure of the economy and would affect the unemployment rate. On the other hand, a strong dollar would affect the importation of energy and other raw materials and would coerce businesses to conserve. This will advance the position of the exporters and will lead to a re-allocation of sources from industries that demand both high supplies of energy and raw materials to those demanding a high supply of labour.

c) Price Liberalization

On January 1, 1991, price liberalization was introduced, and eighty five percent of prices were determined in the market.

Adjustments of relative prices as a first step toward their liberalization began on July 9, 1990, when the government initiated a major retail food price reform. Further steps toward price liberalization included the increases in transport tariffs.

d) Limited Internal Convertibility of Czechoslovakia Koruna.

Limited convertibility of the koruna was introduced on January 1, 1991. Prior to this, companies that earned profits in Czechoslovakian currency were in a difficult position

in converting their profits into freely converted currency. Now, they could officially exchange their profits made in Czechoslovak Koruna's for freely convertible amenities, and after paying taxes, take profits out of the country. As a first step towards it, the commercial exchange rate for the Czechoslovak crown was devalued approximately 15 percent and the non-commercial rate was devalued approximately 50 percent to unify with the commercial rate.

e) Restrictive Monetary and Budgetary Power -

Due to these reform measures arose the problems of unemployment, after 40 years of full employment, inflation, poverty etc which rapidly rose owing to increase in reforms and major structural adjustments".<sup>16</sup>

Obstacles to Economic Reform

Not all of the reforms enacted thus far have been implemented effectively, however, nor are they progressing without opposition and delay. The process of privatization and small business development has been especially slow compared to the reform government's ambitions of privatizing 70% of state enterprises by the end of 1991. Of the more than 100,000 nationalized small businesses and shops that the government wants to sell, only about 800 had been sold by April 1991.

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16. Brada, n.13, pp.171-78.

The tensions undermining rapid implementation of the reforms include the following:

1. Opposition arising from economic uncertainty. Forty years of socialist control brought with it some sense of economic security for workers. The reforms enacted since 1990 have raised fears, especially among middle-aged and older Czechs and Slovaks, about their economic security in the future. Although opinion polls taken in 1990 found that most people support the conversion to a market economy, and many groups advocate rapid and radical transformation, an underlying fear of unemployment and short-term decline in production and living standards makes most Czechs and Slovaks anxious about the pace and direction of change. About one-third of the respondents - fearing widespread unemployment, increases in rents, and high levels of inflation - expressed strong opposition to drastic changes. The government estimated that under the best of conditions, the CSFR experienced unemployment of 7%-8% and inflation of 30% during 1991. The economic conditions is expected to be much worse during the next two to three years. These groups form a political lobby, along with factions of major political parties, to slow the pace and scope of reform.

2. Political ambivalence concerning the pace of economic reform. Rapid and comprehensive reform has been strongly advocated by Finance Minister Vaclav Klaus, the architect of current economic adjustment policies, but not always with strong political commitment and support from the Federal Assembly and in the face of disagreements within and between the National Councils of the Czech and Slovak Republics.

After the initial euphoria of independence waned, political attention was refocused on issues of power and control between the Republics and on the political impacts of economic reforms on workers. When the short-term impacts of economic changes were felt more directly by individuals, political support for the two major political organizations, Civic Forum in the Czech Lands and the Public Against Violence in Slovakia, seemed to weaken. Inflation increased by 14% by the end of 1990 and production fell by nearly 4%.

Progress on economic reform has been affected by the tensions between those disenchanted with the slowness of change and those fearing the consequences of rapid changes. These tensions are exacerbated by the Slovaks' fear that their poorer economy will suffer harsher effects than the Czechs' economy.

Political pressures to modify economic reforms increased when the government reported that for the first two months of 1991 GNP fell by nearly 6% from the same period in 1990. The devaluation of the crown by 17% in early 1991 and announcements of limits on wage increases to a rate below that of devaluation intensified the efforts of those concerned about social and economic adversities to contain the adverse impacts of reform.

3. Opposition by managers and workers in some state-owned companies. The implementation of reforms has also been slowed by the opposition of managers and workers in some state-owned enterprises. Managers used to operating under socialist principles and with assured markets in the Soviet Union and CMEA (Council for Mutual Economic Assistance) countries fear the removal of state subsidies and the uncertainties of the market. Many are ill-prepared psychologically or administratively to deal with real competition. The elimination of state subsidies in 1991 will force some unprofitable companies out of business; others are likely to go bankrupt with the collapse of Soviet and CMEA export markets.
4. Monopolistic character of the economy : This is a major obstacle, therefore the strategic measures of the

economic reform includes a programme to remove it and to develop competition, in other words, to establish a competitive structure of the economy. This establishment of a competitive structure must be combined with opening the economy to foreign companies.

#### PROBLEMS OF PRIVATIZATION AND PRIVATE ENTERPRISE DEVELOPMENT

These obstacles to economic reform are reinforced by other problems that limit or slow the process of privatization of state-owned enterprises and private enterprise development. Among the most serious constraints according to Dennis A., Rondinelli, Professor of Business Administration, are the following:

1. Uncertain economic climate for entrepreneurs arising from low incomes and high rates of inflation. Both small entrepreneurs and managers of privatizing state-owned enterprises are trying to establish their businesses in a period of economic recession and instability. Because of low wages, rising prices, threats of continuing inflation, and decreasing exports, demand for the products of state-owned enterprises is declining and the market for many consumer goods is limited.

With devaluation of the crown in January 1991, prices increased by about 50%. Consumer prices in the

Czech Republic were 60% higher in February 1991 than in January 1989. The average salary in the CSFR was only about 3,300 crowns in 1991, or about US\$113, a month. Salary for high level managers was the equivalent of only about US\$200 per month.

Not only have consumer goods prices increased rapidly, but there remains considerable uncertainty over the supply and price of energy, affecting directly the cost of production for both privatizing state-owned enterprises and small businesses.

2. Lack of business information and marketing skills and techniques. Nearly all privatizing state-owned companies and fledgling small companies face serious marketing problems. Most of the heavy manufacturing companies have lost their protected markets in former COMECON countries and the Soviet Union. These markets accounted for up to 60% of the production of many state companies. The manufacturers are not paid for deliveries and they, in turn, cannot pay their suppliers. In highly integrated manufacturing companies, the loss of markets for primary goods sends a ripple of production cutbacks through the whole system of intermediate goods producers and suppliers.

3. Limited access to capital and credit. Both small businesses and privatizing state-owned enterprises have limited access to credit. The State Investment Bank will only make short-term loans to small businesses for operating expenses. Most commercial banks will not make capital investment loans to small-scale entrepreneurs except in special circumstances.

No special programs have been established for small businesses, except provision of loans at about 1% below the standard rate for those that provide 100% collateral.

4. Limited physical space for small enterprise operations. The large backlog of housing demand, slow construction and lack of building maintenance has left little space for entrepreneurs wishing to start up or expand businesses. The predominance of Soviet-style large-scale apartment buildings with insufficient space for living and virtually no space for commercial activities inhibits the start-up of small production activities as well as of trade and services.
5. Substantial taxes and regulations on business activity. Both privatizing state-owned enterprise managers and small business owners must pay substantial taxes and social benefits for employees and adhere to both old



regulations and new restrictions that raise the cost of doing business.

Companies must pay heavy social security and benefit costs of employees to support the "safety net" of social programs established under the socialist regime and kept in place to reduce social tensions during the transition period. Owners of small companies find it particularly difficult to pay social security and benefit taxes of up to 50% on employee wages. As a result, small business owners are generally reluctant to take on employees.

Private business development is also slowed by bureaucratic "red-tape".

6. Constraints on retention of hard currency earnings.
7. Social hostility to small business owners. Deep suspicion exists in Czech and Slovak society of those who can afford to purchase small businesses under the law that sold these shops to the highest bidder. Many shop workers who could not afford to bid complain that the only people who had the capital to buy these businesses were black marketeers (many of whom were thought to be gypsies and foreign workers), corrupt former officials and nomenclature, and people backed by foreign investors.

8. Lack of management skills for operating in a market economy. Although managers of privatizing companies are often technically skilled, most lack the capacity to operate in a market economy. They have worked in an environment over the past 40 years that rewarded them for obedience, conformity and meeting planned targets. Many are unused to taking responsibility for decisions or taking risks. They do not know how to assess competitive opportunities, to deal with risk, to mobilize and invest capital to create market advantages, how to use information systems for business operations, or how to value the assets and liabilities of their companies. Managers of these companies are also unfamiliar with cash flow management and standard systems of accounting. Many adopted Soviet accounting principles that were complicated and confusing; these systems are now useless in dealing with international companies. Managers' attitudes and behaviour must change in order for them to adjust to a market-oriented system.

#### **CREATING AN INSTITUTIONAL BASE FOR PRIVATE SECTOR DEVELOPMENT**

In order to overcome the opposition to economic reforms and the obstacles to privatization and private enterprise

development, the CSFR will have to develop an institutional base to strengthen emerging businesses and to stimulate entrepreneurial activity.

A first priority must be meeting the immediate needs of small scale entrepreneurs and managers of privatizing state-owned enterprises for management and technical assistance. Some of the problems that small-scale entrepreneurs and managers of privatizing state-owned enterprises face in establishing and expanding their businesses will be addressed by proposed reforms in the tax law, the development of new accounting standards, and changes in laws affecting business operations. Others require external assistance from international development organizations such as the World Bank and the Eastern European Development Bank as well as considerable self-help by entrepreneurs and business managers themselves. Among the most urgent needs of small businesses as Dennis A. Rondinelli says, are :

- "1. Access to information about the business formation process, business systems, practices and procedures and markets;
2. Availability of practical counseling and consulting services for business owners and would be entrepreneurs on the legal environment, business planning, financing and marketing;

3. Broad-scale business ownership and management training offered particularly in short, practical workshop and seminar formats; and
4. Development of a few carefully planned business development facilities to help overcome current scarcities of commercial and production space for new business and provide training and management assistance programmes".<sup>17</sup>

No systematic effort is now being made in the CSFR to meet these needs. The government is operating under austerity budgets required by the IMF and has limited resources to create or support such programs. In any case, small-scale entrepreneurs distrust such programs sponsored by the government and prefer to obtain assistance from Czech and Slovak non-government organizations such as the Chamber of Commerce and Association of Entrepreneurs.

A second requirement for effective reform is expanding knowledge of how a market-oriented economy works and how business operate within it.

Third, it will be essential to create a nation-wide program of training for management development and business

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17. Dennis A. Rondinelli, "Developing Private Enterprise in the Czech and Slovak Federal Republic - the Challenge of Economic Reform", The Columbia Journal of World Business (New York), Fall 1991, p.34.

education in colleges and universities.

According to Dennis A. Rondinelli, "among the areas in which training and education are most urgently needed are : 1) privatization and market economy operations; 2) management functions; 3) management tools, including total quality management, project management, information technology management and management information systems; and 4) human resources management and development".<sup>18</sup>

In sum, the willingness and ability of American and Western European companies to trade with and invest in the CSFR will depend on the ability of the country of improve its investment climate as it goes through a difficult transition from a socialist command economy to a market-oriented democracy. The success of its economic reforms depends on privatizing the large enterprise in the Czech and Slovak Federal Republic - state-owned enterprises that now dominate the manufacturing sector and on developing a critical mass of small- and medium-scale enterprises that can generate employment. An institutional structure will be needed for quickly providing small-scale enterprises and privatizing state-owned enterprises with management and technical assistance, re-orienting the educational system to provide a better and more pervasive understanding of how market econo-

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18. Ibid., p.35.

mies and democratic systems operate, and developing within colleges and universities the capacity to educate the next generation of managers and entrepreneurs in business administration.

### VELVET DIVORCE

Like other East European Countries, Czechoslovakia also after throwing away the shackles of totalitarian regime in 1989, embarked upon the path of economic reform as explained. Vaclav Havel, who emerged as the most famous leader after the "Velvet revolution" could not however keep the federal state of Czechoslovakia as one country and less than three years after the "Velvet Revolution", the country announced its bifurcation, which is called a "Velvet Divorce".

The Czechoslovakian elections in June 1992 had created a watershed in the country's history. The two winners - Vaclav Klaus and his Civic Democratic Party in the Czech Republic and Vladimir Meciar and his movement for a Democratic Slovakia had both agreed to abandon the federal state for what they claimed as higher ideal; Meciar to secure a sovereign Slovakia, Klaus to pursue rapid economic reform. Vaclav Havel resigned, giving up his bid to preside over a federal Czechoslovakia for another term.

Thus, Parliamentary elections revealed deepening differences between Czechs and Slovaks thus increasing the chances that the 74 years old federation will become unstitched like the former Soviet Union and Yugoslavia. Prime Minister, designate Vaclav Klaus met with Meciar in two rounds of talks that ended with mutual occupations of intransigence. "The other side refuses to accept anything we are proposing",<sup>19</sup> said Klaus. It was only after the fourth marathon negotiating session between Klaus and Meciar in the third week of June, the two leaders agreed to split the country into two separate sovereign states by September 30. Earlier Klaus opposed the division of the country and supported a federal structure for the country but Meciar was adamant on a sovereign status for Slovakia, reasons for which will be discussed later in detail. Since the break up was inevitable, Klaus was insisting on hastening the process. Since then he could also hasten the process of reform, which was retarded due to economic crises of Slovak. The Slovaks, however, wanted a referendum on independence early in 1992 and division by end of 1992. Actually, the Union was divided on December 31, 1992.

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19. Erazim Kohak, "Tattered Velvet: A country falls apart", Dissent (New York), Fall 1992, p.442.

The two leaders agreed to a joint statement proposing a transitional smaller federal government with five Ministries - Defence, Finance, Interior, Economic and Foreign Affairs. It would oversee the transition and decide how to divide property, assets and liabilities between the Czech Republic and Slovakia. By September 30 the federal parliament passed a law legalizing four possible ways of terminating the federation. "It can be done by referendum; by agreement between the two republics parliaments by one republic's unilateral secession; or by simple declaration of the federal parliament. Out of these, option four was accepted and the federal parliament voted the division of the 74 year old federation and itself out of existence".<sup>20</sup>

Meciar also argued in favour of some kind of commonwealth of the two states under a loose and vaguely defined common economic and defence structure. The speedy changeover from command economy to western style market economy resulted in economic hardship because it led to a high rate of inflation, unemployment and shortages of essential commodities. The unemployment figures in Slovakia had risen to a catastrophic 12 percent. The economy in Slovakia was in worse shape now than it had ever been.

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20. "Czechoslovakia : Peaceful End", The Economist, September 5, 1992, p.58.



Slovakia's main concern and economic problem is that it did not begin to industrialize until the communists seized power in 1948. Enormous heavy industry and armaments plants were erected in regions that were once purely agrarian. Thus, by 1988 per capita income in Slovakia had grown from 60 percent to 87 percent of the Czech level. At the same time, Slovakia came to be almost totally dependent on other East bloc economies, particularly that of the Soviet Union.

After the revolution of 1989, the government in Prague put a damper on weapon exports and the Soviet market collapsed. This undermined the fundamental basis of Slovak industrialization. An economic rift grew rapidly between the Czechs and the Slovaks. From January 1991, to January 1992, industrial production in Slovakia fell 47 percent; in the Czech regions of Bohemia and Moravia, it fell only 31 percent. The unemployment rate in the Czech republic is 3.7 percent, and the private sector employs 10 percent of the work force. The Slovak figures are 11.8 and 4 percent.

Slovakia's drive for sovereignty has multiplied its economic difficulties. Thus, Meciar and Klaus have expressed their commitment to a common market for the republics, and, if possible a customs union.

Part of the problem of division is that the Slovaks believe their economically depressed republic bears the

brunt of Klaus' radical proposals for privatization and austerity. But several thousand Czechs signed petitions in Prague calling for an independent Czech republic-complaining that the Slovaks are backward looking and even dangerous.

Czechoslovakia's split is among the gentlest expressions of nationalism in a region where other countries - notably Yugoslavia and the former Soviet Union, have been torn apart by movement and ethnic strife. The 10.5 million Czechs may actually benefit from the break up, once they no longer have to support the weak Slovak economy. But Slovakia's emergence as an independent nation of more than 5 millions people will not be easy, due to reasons explained above. The newly independent country will also have to deal with nationalist problems; the leaders of 6,00,000 ethnic Hungarians who live in Slovakia already want autonomy.

"The Hungarians instituted a brutal and thorough policy of Hungarianization, and by the outbreak of World War I, there was only a tiny Slovak intellectual class left. When that empire collapsed after the war, the Czechs and Slovaks came together - uneasily - to form a single state. There was a large German population as well, but they did not take part in the constitution of Czechoslovakia.

The original state was founded on the idea that the Czechoslovaks were a single nation - not a nation of blood

and soil, but what they called a "political nation", that is, a nation bound together by the idea, or the ideal, of political liberty. This idea did not originate with the Czechs or Slovaks and it never really found proper political expression, though there's is a large body of literature expounding the ideas of Czechoslovak statehood, and its most recent expression is Havel's own words, in *Summer Meditations*, where he calls for the creation of a *duchovnistat* - that is, a state based on spiritual and intellectual values.

In the First Republic, from 1918 to 1938, the Slovaks had virtually no political autonomy. The friction and dissatisfaction this arrangement caused fed the forces of nationalism and separatism, and on the eve of World War Two, the separatist, Nazi-influenced Slovak People's Party, led by Monsignor Tiso, declared independence with Hitler's blessing. This repressive Slovak state lasted until the end of the war. In the brief interim before the Communist takeover in 1948, the Slovaks enjoyed a decreasing measure of self-government, and Communist rule brought this to an end. During the brief period of liberalization under Alexander Dubcek in 1968, the question of granting increased autonomy to Slovakia was opened again, and in fact a new constitution granting the two republics "sovereignty" and "equality" was drawn up and passed. But with the Communist Party in virtual

control of all levels of government, the concessions were hollow, and remained so until the Velvet Revolution of 1989".<sup>21</sup>

In fact, Havel warned of a permanent political and constitutional crises and suggested that he would not run for reelection, if the federation broke apart. He felt that if, often the break up, the two federations became stable democratic states, then the split was not a tragedy.

In truth the country never was a natural fit. Despite close linguistic ties, the Czechs and Slovaks have vastly different cultural and historical backgrounds. The history of Slovak nationalism goes back to the nineteenth century, when Slovakia belonged to the Hungarian part of the Austro-Hungarian empire, and was predominantly rural and Slovaks were Roman Catholics. Czechs were more urban and secular and lived under Austrian Rule.

In order to form a common state, a human community does not need a shared language or ethnic identity. Switzerland is a case in point. It does, however, need common memories and common hopes. Czechs and Slovaks made little effort to forge a common understanding of their past or a common vision of their future, though the possibility was there.

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21. The Europa World Year Book, 34th Edition, Volume I.

Though sharing a country, few Czechs bothered to understand how the Slovaks felt about it, and vice versa.

A dramatic case in point is the Munich agreement and the Nazi occupation of the Czech lands. For the Czechs - and for the Slovaks who identified with Masaryk's democracy - that is the darkest hour, the day of infamy.

For democratically oriented Slovaks as well as the Czechs, not the Slovak state but the heroic, bitterly fought Slovak uprising against the fascist regime symbolizes the true spirit of Slovakia. In it, Slovakia rejected its fascist image and reentered the community of free nations and Czechoslovakia as an equal partner. The communist regime, though, made mockery of that equality and exploited the uprising as a communist achievement, effectively discrediting it in the eyes of many Slovaks. Today Czechs remember a Nazi occupation: most Slovaks remember the Slovak state.

The two nations have different memories of the communist era as well, especially of its final twenty years. For the Czechs, the years since the Soviet occupation were a time of political repression, economic decline, and ecological devastation. In Slovakia, the repression was not nearly so severe.

Economically, too, the late-communist era was for Slovakia a time of relative prosperity. The industrializa-

tion of Slovakia was bringing about a change of life style and a rapid rise in consumer standards. The communist government had, since 1953, followed a policy of redistribution, channeling Czech surpluses to Slovakia. Under Gustav Husak, himself a Slovak, that policy was pursued vigorously. While the Czech lands visibly disintegrated, life in Slovakia was reasonably good. For that reason, too, there was much less enthusiasm for the velvet revolution in Slovakia than in the Czech lands. To most Czechs, Havel appeared as a savior at the last moment. To many Slovaks, he appeared as another Czech busybody interfering disastrously in Slovak affairs.

The very different development of the two lands after the velvet revolution seemed to bear out that perception. In the Czech lands today, the flurry of economic activity is reminiscent of Germany in the early 1950s.

In Slovakia, the mood is very different. Only 6 percent of the influx of foreign investment capital has gone to Slovakia. Tourists find Prague an easy drive from Germany, but few bother to make the long journey to Slovakia. The Slovak armament industry has been hard hit, both by Havel's decision to phase out the arms trade and by the flooding of the market with surplus Soviet ordnance. Unemployment is

high. The recession contrasts with the relative prosperity of the final communist years.

According to Mr. Klabo, Ambassador, Slovak Embassy, "There have been two basic factors: longterm and immediate. As far as the former is concerned striving of Slovak tribe and later on as a nation to achieve its national emancipation through forming independent state on its own. Immediate was breaking all the barriers for free expression and political activities after the fall of communist regime in erstwhile Czechoslovakia and growing differences between Czech and Slovak political representation over the issue of economic reform".<sup>22</sup>

Mr. Kapic says that, "Czech wanted fast changes in the move towards free market policies. Slovakia wanted slow changes and not so deep changes, the reason for this was that the Structure of economy was different, it supplied semi products i.e. agricultural goods to Czech factories. Unemployment was much higher in Slovakia, around 10%, thus, for it the process of change was a difficult process.

Slovakia wanted a confederation of industries i.e. a state controlled arrangement. Czech refused a tight federation. It wanted the 2 republics with a tight central

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22. Klabo, "Excerpts from an interview of Mr. Klabo, Ambassador, Slovak Embassy, New Delhi", Appendix I, October 20, 1993.

government. Czech placed the offer in front of Slovak's - who declined it and opted for a divorce. In the 1992 elections both sides leading party's won and got 36.7% of votes. The Civic Democratic Party with Vaclav Klaus as its leader come to power in Czech and Movement for Democratic Slovakia with Meciar as its head came to power in Slovakia".<sup>23</sup>

For these reasons and those explained earlier, split became inevitable and Czechoslovakia became Czech and Slovakia on December 31, 1993.

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23. Kopic, "Excerpts from an interview of Mr. Kopic, First Secretary, Czech Embassy, New Delhi, Appendix II, January 16, 1994.



## CHAPTER IV

### CZECH AND SLOVAK REPUBLICS: PROBLEMS AND PROSPECTS

On January 1, 1993, the septuagenarian Czechoslovak federation ceased to exist and two newly independent states were added to the galaxy of the European states. The original impetus for the split came from the Slovaks. They even anticipated it formally by adopting a new constitution for themselves on September 1, 1992. Slovak separation was driven primarily by the wounds and slights of history rather than by any material advantages that could be expected to come from it. After so many centuries of Slovakia's oppression and humiliation, the prospect of standing tall in the world, of being recognized as a sovereign state, became increasingly attractive, especially to the politicians. Many Slovaks were also intoxicated by the thought of having their own seat in the UN and representation in other international bodies.

After the Velvet Revolution and fall of Communism in 1989, Vaclav Havel had dreamt of a republic which was "independent, free, and democratic, of a republic economically prosperous and yet socially just, in short, of a humane republic which serves the individual and which there-

fore holds the hope that the individual will serve it in turn. Of a republic of well rounded people, because without such people it is impossible to solve any of our problems, human, economic, ecological, social, or political".<sup>1</sup>

Unfortunately, Havel could provide little more than dreams. Czechs and Slovaks waited to see how and when his dreams were going to be realized. Instead of his dreams being realized, the country itself was torn apart into Czech and Slovak republics.

The democratically elected leaders of the new states, have agreed to respect each other's rights to independence. Neither has territorial claims on the other, nor any burning historical or political grudge to settle. There are no hamlets or regions in one republic which prefer to belong to the other. Ex-Czechoslovakia will not be ex-Yugoslavia.

The break-up was peaceful and according to Mr. Klabo, "In any case we have never got any record of violence between our two nations or while political differences have been settled down in erstwhile Czechoslovakia. The single exception was a short part of lawlessness during early '50s shortly after the communists took over. The overall picture of systematic change in my country was linked with call for

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1. Vaclav Havel, "The End of Czechoslovakia", The New York Review (New York), January 28, 1993, p.20.

freedom, peace and love while there was significant attraction towards philosophy of non-violence by Bapu Ji as well".<sup>2</sup>

According to Mr. Kapic, the division was easier in the case of Czechoslovakia because:

- a) When property is small and clearly demarcated, its a problem when population is mixed however since mixing is less in Czechoslovakia, the revolution was smooth.
- b) It was a constitutional process approved by parliament. Twenty seven laws were passed regarding division of property, banks etc, although, division of property is yet to be finalised, which gave the process a lawful framework. Thus, all aspects of divisions are based on agreement on both sides.
- c) "Mentality of the people was a great contributing factor to the peaceful division of the country".<sup>3</sup>

But the separation is not entirely friendly. Although the two republics parliaments have satisfied dozens of accord on future cooperation, including health care, labour mobility and social security, the most important - the

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2. Klabo, "Excerpts from an interview of Mr. Klabo, Ambassador, Slovak Embassy, New Delhi", Appendix I, October 20, 1993.

3. Kapic, "Excerpts from an interview of Mr. Kapic, First Secretary, Czech Embassy, New Delhi", Appendix II, January 16, 1994.

planned monetary and customs union between the two new states, partly because they have been demanded by the European Community. The most difficult problems are still ahead; they are a division of the common property and of the armed forces.

"As far as the National Anthem is concerned, Czechs will sing the first part of the Czechoslovak anthem, while Slovak will sing the national song's second verse and soon a second verse will be composed. The Slovaks decided on their flag, a red, white and blue banner with three hills and a cross. The Czechs, however, adopted the federal flag and other federal symbols. For the citizenship problem, Slovak side is for the principle of twin citizenship, Czech for the principle of single citizenship. It will be possible to cross the border between the Czech and Slovak Republics anywhere on the basis of identity card and there will not be any customs and passport checking. The border crossing between the Czech and Slovak Republic will be symbolically set up for the foreigners from third countries".<sup>4</sup>

The cost of separation for both sides is incalculable. The Czechs are also expected to suffer economically from a break up but much less than the Slovaks, because the Czech economy is much the stronger of the two. Almost 85 percent

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4. The Czech Republic, January 11, 1993.

of foreign investment has been coming into the Czech territory, most of it from Germany. A study by the Czech and Slovak confederation of trade predicted that Slovak unemployment might go from 10-13 percent in 1992 to as high as 25 percent after the separation.

"Wedged into one of the most strategic corners in this unstable region, Eastern Europe's newest small nation has been gripped by uncertainty and foreboding in its first few weeks of independence.

Slovaks are frantically withdrawing their money from local banks, anticipating that the widely rumored end of the joint currency with the Czech Republic will mean a sharply devalued Slovak crown, thus leading to inflation and unemployment".<sup>5</sup>

Efforts by Prime Minister Vladimir Meciar to retain control of Slovakia's privatization have led to a political stalemate, with his refusing to relinquish power over the ownership of the largest state-owned industries.

"Privatization has become a way to concentrate political power instead of a means of economic transformation",<sup>6</sup>

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5. Stephen Engelberg, "In a New Slovakia, Fears are Both New and Old", The New York Times International, January 22, 1993.

6. Ivan Simko, "Slovak is Balking at Privatization," The New York Times International, February 13, 1994.

said Ivan Simko, a member of Parliament for the Christian Democratic Movement.

But Slovakia continues to struggle. Badly needed foreign investment has not materialized because of governmental instability and murky privatization policies. So far, 500 state-owned companies valued at \$ 4.7 billion have been sold off in Slovakia, many to Slovak officials and allies of Mr. Meciar.

Western companies, including Westinghouse and Shell, have expressed interest in joint manufacturing ventures but have had trouble finding a Slovak partner. "Lubomir Dolgos quit as Minister of Privatization last May when his plans to step up privatization clashed with those of Mr. Meciar, who wants to hold on to the large industries in his role as the head of government".<sup>7</sup>

Slovakia is employing a wide range of measures to privatise its economy, once strongly concentrated on vertically integrated heavy industry and agricultural conglomerates. A new generation of companies and entrepreneurs is now engaged in building the country's highly decentralized private sector. In a region currently swept by privatization doctrines, the Slovaks are pragmatists. Their official

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7. Ibid.

privatization program is unfolding briskly, and uses an equity coupon scheme originally formulated by Vaclav Klaus, then finance minister of the Czech and Slovak Federal Republic. Following the example of Eastern Germany's Treuhand authority, Slovakia has auctioned off 90 percent of its expansive retail sector to owner operators. Foreign-controlled capital venture funds are given full access to the market and have bankrolled a number of young companies.

This broad base of business represents a sharp break with the past. After World War II, Slovakia's long centuries of subsistence agriculture and decades of on-again, off-again industrialization came to an abrupt halt. The newly founded Comecon needed an arms and heavy industry center, and Slovakia, relatively poor in resources but rich in educational and technical skills, was selected.

"Over the last few months, various multinationals have made major investments in the area. These foreign companies, based in all industrial sectors and from 45 different countries, report two main reasons for investing in Slovakia. The first is net unit costs, a term used by economists to describe how much it actually costs to produce an item and bring it to its end market. As companies admit, it is hard to find a cheaper manufacturing base than Slovakia. According to a recent survey by The Economist, Czecho-Slovak wages

are the lowest in Europe - one-twelfth of those in Germany - and are undercut only by China's among major industrialized countries. Slovak machines and facilities are being brought up to Western standards and in many cases, actually surpass them. The result, states Erich Krajcik, senior executive at the Investment and Development, is products of good quality and "unbeatable" prices".<sup>8</sup>

The economic ties between the Czechs and Slovaks are not so tightly meshed that they cannot pull further apart and result in increased estrangement; only about 11 percent of Czech goods are exported to Slovakia, and no more than about 27 percent of Slovak goods go to the Czechs. A truly independent Slovakia needs its own convertible currency, a bank to issue funds, and a monetary policy - none of which will be easy to bring about. In foreign affairs, Slovakia is now embroiled with Hungary over the hydroelectric dam at the Slovak - Hungarian border and Slovakia's treatment of its large Hungarian minority. 15 million Czechoslovaks faced about 10 million Hungarians; now 5 million Slovaks face twice as many Hungarians. Most attention has been paid to the apparently peaceful Slovak-Czech separation. But over cut adrift from the Czechs, the Slovaks have entered a less

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8. Ibid.



peaceful course elsewhere, starting with their breach with Hungary.

The economies of Europe's two newest countries are growing more different by the day: Slovak industry, much weaker than its Czech counterpart, is pressing the Slovak government for more subsidies and weaker monetary constraints.

Optimists say the Slovaks, already getting nervous about running their own economy, may quickly change their minds about subsidies to universal surprise, not least among Slovaks who thought they had voted for gentler reforms and more generous social provisions than their Czech neighbours, the Slovak PM, Vladimir Meciar, now wants to cut welfare payments and tighten the budget. The changed tune is not playing well and may cause more political turmoil. The reconstituted communists, now called the Slovak Democratic Left, have picked up as many points in opinion polls as Mr. Meciar's ruling movement for a Democratic Slovakia has lost.

The more jittery the Slovak government gets about its economic position, the clumsier its attempts to assert power elsewhere. In October they were removing Hungarian language signs in border areas. In November state television banned the use of Hungarian names for Slovak towns in Hungarian

language broad cast. Even non-Hungarians in minority areas find it aggressive and absurd.

Czechs blame Slovaks for racism. They were racist against jews attacks on gypsies. If Czechs do not denounce intolerance, Czechs may find themselves saddled with an unwelcome import from abroad - anti-foreigner violence.

On January 1, at the birth of their new state, Slovaks woke up to find prices 10-40% higher than the day before the imposition of a new valued added tax (VAT), as part of ambitions new tax reforms, was supposed to lead to increases of only 5-6%. The government has since ordered a check on whether relations are taking unfair advantage of the new tax to put up prices. If they are the Gross National Product may consider regulating the prices of some foods.

The rumours that the Czechs were stamping banknotes, in preparation for the introduction of their own currency, provoked a run on Bratislava's banks, with people emptying their savings accounts in anticipation of an abrupt end to the currency union between the two countries. The union still stands; the Czechs said the stamping was just a technical provision in readiness for a monetary division which was tentatively scheduled for June.

The list of problems the government faces is long: plenty of inefficient, polluting industries without solvent

customers since the collapse of comecon, the old East European trading block, unemployment at close to 11% decrepit infrastructure, a stalled privatization programme, a desperate shortage of domestic capital and foreign investment. Slovaks trust in their government is slipping.

Ministers have been slow to tackle these problems. Some have thought of plans which are slow to implement, and disagreement persists over certain central issues. IMF says Slovakia needs to attract \$700 m in investment in 1993-94 if it needs to stabilise it's economy. Dolgos says Slovakia is prepared to sell companies at below their value if other conditions are met.

Slovakia's weaker economy makes it a more gracious negotiator the Czechs with more suitors are starting to get more choosy. If Slovak government could present its policies quickly and clearly then the long and difficult process of recovery could begin.

Even the most optimistic proponents of 74 years old union see a short term future marked by rising unemployment, higher inflation, lower productivity and lower standards of living foremost. 5 million population of Slovakia will face higher rates of income tax, social security and health insurance will bite into the average citizens income. The European Diplomat in Prague said a short run living standard

would decline. Federal Bureau of Statistics said the Czech and Slovak Republics would be hit by recession after the breakup.

Slovaks fare worse and by the end of 1993, Slovak industrial output was expected to be down to 57% of its level in 1990, first full year after the communist government was overthrown. Czech - individual output by the end of 1993 will be 69% of its 1990 level. Economic Growth will grind to a halt for a year in the Czech republic and atleast two years in Slovakia which depends on outmoded heavy industry and arms factories whose traditional markets in the former Soviet bloc have vanished. The two countries will initially use the Czechoslovak koruna as a common currency, experts say this will be discontinued within six months. After Slovakia adopts its own currency, its rate of inflation is expected to rise to about 24% Czechs inflation rate of about 15%. Economic hardship was no issue at the time of election of prime minister Vaclav Klaus of Czech and Prime Minister Vladimir Meciar of Slovakia.

One year into its independence, Slovakia's dour economic and political mood stand in sharp contrast to the brighter trends on the other side of the border in the Czech Republic.

With higher unemployment and inflation and even poorer growth than in Czech Republic, Slovaks are beginning to see that they got the worse part of the bargain when Czechoslovakia split in two on January 1, 1993.

But the biggest contrast comes in the tormented Slovak politics, where "Prime Minister Vladimir Meciar, the erratic leader of a fragile coalition, veers increasingly toward what intellectuals and critics here are calling a one-man, one-party rule".<sup>9</sup>

The Slovak President, Michal Kovac, who was among the four Eastern European leaders to meet with President Clinton in January in Prague on the question of NATO membership, has joined the chorus of criticism, saying Mr. Meciar is taking the country backward. He has repeatedly called on Mr. Meciar to bring more parties into his two party coalition.

Rudolf Chmel, a historian and a former diplomat, wrote in an article published recently by the Polish newspaper *Cazeta Wyborcza* that Slovakia was at a crossroads. "Either it will strive toward a democracy or a dictatorship",<sup>10</sup> he said.

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9. Jane Perlez, "Slovaks Come Out Loser in Break with Czechs", The New York Times International, January 22, 1994.

10. Ibid.

In an interview January 29, Mr. Chmel said, "The dictatorship, is very obvious here since the election of June 1992".<sup>11</sup>

While many of Slovakia's problems have been caused by the loss of markets resulting from the collapse of the Soveit Union, they have been made worse, many economists assert, by Mr. Meciar's poor economic management.

Czech Republic is working towards western economic reforms and growth outspaning Slovakia. Czech-Slovak trade will drop, but Slovakia will remain more dependent on it than Czech. The split was of some economic advantages for Czech :

- a) Massive Czech subsidies to Slovakia which were 10% of Czech as Slovak budget annually will be stopped.
- b) Pace of economic transformation could be maintained or speed up.
- c) Inflation in Czech is under control and balance of payment is in surplus.
- d) Hard currency exchange rate has stabilised and hard currency reserves are highest in history.
- e) Private sector has increased its share in Czech Public Economy, accounting for 60% of its trade.

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11. Ibid.

f) Academy of Sciences predicted that Czech Republic's GNP will fall by 6% in 1993 but start slowing by year end for the 1st time in 2 1/2 yrs.

Thus, there is reason to be optimistic for the Czech Republic.

Czech's social and economic priorities are to curb inflation, unemployment and support a social security system for all people.

"Czechs are already a completely pluralistic democracy; and a free market economy. Infact their economy is at a level of liberalisation and deregulation which is comparable with most Western European countries. In this respect, their task now is to compete. They have already carried out the most spectacular and dramatic changes. The aims are to function normally, to finish privatisation and to start economic growth again".<sup>12</sup>

According to Vaclav Klaus the Czech Republic will be a democratic, normally functioning market economy and wants to be an equal partner with the rest of Europe into Western, Central and Eastern Europe; "we don't live with the old myths about making bridges between the West and The East".<sup>13</sup>

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12. Vaclav Klaus. "Prime Minister Vaclav Klaus discusses his Government's Future Plans", The Czech Republic, January 11, 1993.

13. Ibid.

Vaclav Klaus says that compared with the other newly liberated Central and Eastern European countries, our rate of inflation speaks for itself - 6% is a real achievement. Our annual inflation rate is therefore unique amongst post communist countries and indeed is more comparable with Western economics than with Eastern Europe. It is something we must tell the world about.

On the currency issue after separation, we have suggested a three stage plan. Currency union is just the first state - we plan to have a common currency of Czechoslovak Crowns (CSKS) - and the second stage is a technical conversion of the Crown into two independent currencies. When I say technical, there will be a parity of 1:1- and the third stage will be the floating of the separate currencies.

The question is not how long will we be able to keep a common currency. There is no timetable because it depends on the quality and style of the economic policies of the two republics. "I disagree with those commentators who think that Slovak economic policy will dramatically change after the separation of the two countries. I suspect it will be much more pro-market than is generally forecast".<sup>14</sup>

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14. Ibid.



Map I

**GERMANY**

**POLAND**



**GERMANY**

**AUSTRIA**

**SLOVAKIA**

CZECH REPUBLIC, 1993.

Map II

P O L A N D

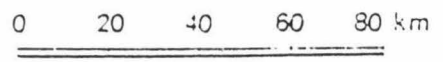
CZECH  
REPUBLIC

AUSTRIA

UKRAINE



SLOVAK REPUBLIC 1993



There are changes in foreign policy, which one can see from a quick glance at the maps of the two republics (see Map I and II). Two new countries now exist in somewhat different geopolitical situations. Such factors are among the fundamentals of foreign policy, regardless of the political orientation of the government in power. The Czech Republic has lost direct contact with the government in power. The traditional route to South East Europe, and with the former Soviet Union. According to Foreign Minister, Josef Zielenic, "For the first time in our history, Hungary is no longer our neighbour. Also, as this country has grown smaller, the relative weight of our neighbours has increased. So our policy is now more markedly connected with the policy of the west and with the fate of western Europe than before. It is certainly a different position to that enjoyed by the former Czechoslovakia. But it can be seen as a return to the traditional position of the Czech Lands.

Our general policy thrust towards integration with western Europe will now be much more straightforward. The Czech Republic's government coalition is more politically oriented towards the west than was possible under the Czechoslovakian Federation. The Federation combined a wide spectrum of political representatives from Bohemia and Slovakia and was forced to balance widely differing interests, The

influence and attractive nature of the west, and of Western European institutions, was reflected in Czechoslovakia partition. We owe European institutions a debt, they assisted Czech efforts to ensure the separation proceeded in an internationally acceptable manner. Neither new country wanted to do anything which would prevent its access to Europe. The peaceful course of the separation is also a victory for the European institutions and the values that they represent in our eyes".<sup>15</sup> The impact of the creation of these two republics was that, the Czechs were a member of the Visegrad Troika. Which was an association of the former communist countries of central Europe-Hungary and Poland. Czechs still have many common interests and, to a great extent, the same problems. The separation of Czechoslovakia has made the troika a foursome - the Visegrad group. The new Slovak Republic has become a key force in this region since Hungary has no border with Poland and we have no border with Hungary. All such contacts must be made through Slovakia, the cross-roads of the group. Future relations between Slovakia and Hungary will determine how long the Visegrad group will hold together.

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15. Josef Zielenic, "Excerpts from an interview with Foreign Minister Josef Zielenic", Appendix IV, January 11, 1993.

The world was totally against the disintegration of the country but due to the peaceful nature of the split, the world accepted the divorce. Slovaks were initially against the break up but later accepted it happily when they realised that Czechs were suppressing the Slovaks.

Initially, the general feeling of the Czech public, was that they saw the division as an unwise step and the majority opposed it.

As for the Czechs, Mr. Kapic says, "that now if you ask, its good that we broke-up, because the change of economic structure would be faster, because we have better conditions, stronger economy and experienced staff. Czech feel that their economy would grow faster now, because initially 45% of national (Czechoslovakia) budget was consumed by Slovakia, when it contributed only 33% of the national product. Thus, although unhappy earlier, Czech are now happy about the break up".<sup>16</sup>

As Rome was not built in a day, Czechoslovakia can't die overnight. After 74 years of living as one, it will take some time to separate what rightfully belongs to each other. While the country will not be transformed, at the stroke of

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16. Kapic, "Excerpts from an interview of Mr. Kapic, First Secretary, Czech Embassy, New Delhi", Appendix II, January 16, 1994.

midnight on December 31, but there are still clues that things are not as they were, when they rose in the morning. Both the officials and the public are hopeful that the two republics will remain close to each other in the future, like all democratic countries.

## CHAPTER V

### CONCLUSION

The disintegration of the Soviet "empire", Yugoslavia and Czechoslovakia and the unification of Germany have been watershed events. It would appear that political currents in the world are working in favour of pluralism where political constructs had been imposed with military and ideological power and at the same time political trends favour unification where political and social elites and the general mass refuse to accede to "Cold war ideological straight jackets".

The disintegration of these multi-ethnic communist states in the post cold war era, throws light on the weakening of the binding forces of the states. Gorbochev's perestroika and glasnost and the developments in Soviet Union - the original "homeland of the world proletariat", have put the final nail in the coffin of Marxist alternative to liberal democracy. These states had been forcefully kept together under the dictatorship of communist rule and soon after the fall of communism, came the disintegration of these states into smaller republics. The seeds of disintegration were sown when the countries constituted themselves as federal states. The republics were given the right of

secession from the federation. The federation was kept united under the authoritarian communist regime, but as the state authority began to loosen, the constituent units invoked the right of secession and the countries disintegrated. Ethnicity, religion and nationality and the post cold war era were also contributory factors in the division of the states.

This study has traced the disintegration of Czechoslovakia as a result of historical and immediate factors. It has explained in detail the reasons for the uneasy coexistence of the Czechs and the Slovaks in the nineteenth and twentieth centuries which along with the collapse of communism after the velvet revolution ultimately led to the velvet divorce of Czechoslovakia, thus giving birth to Eastern Europe's two newest, smallest nations, Czech and Slovak. The Czech republic and the Slovak Republic stand at the threshold of a new era with their own problems and prospects. These new possibilities and constraints are based on both domestic concerns and their changed role in relation with other nations.

The following questions can be posed:

1. What is the role of the new Czech and Slovak republic?
2. What are the economic and social priorities for the new republics?



3. What is the impact on the Central European region of the creation of two new countries?
4. How will the foreign policy of the new republics differ from Czechoclovakia which after all was a larger player?
5. Will the two republics stay close in the future?

#### ROLE OF THE NEW CZECH AND SLOVAK REPUBLIC

"The new Czech and Slovak republic will play the same role as all democratic, independent and sovereign countries in the world".<sup>1</sup> Czech has the advantages of staying on the border of East and West and thus can be engine which could support trade between East and West and this could also lead to foreign investment in the country, thereby exchanging its trade and export. In the national interest of Czech Republic, it will fast join the Western Economy and become a member of NATO and of the European Community, which will be the priority of its foreign policy.

#### ECONOMIC AND SOCIAL PRIORITIES FOR THE REPUBLICS

Economic reconstruction including change in ownership, management and overall shape of economy; to manage the

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1. Kopic, "Excerpts from an interview of Mr. Kopic, First Secretary, Czech Embassy, New Delhi", Appendix I, January 16, 1994.

former, while not disturbing social peace and adversely affecting living standard in general; revival and resurrection of the society life subdued by one single ideology for more than four decades are the economic and social priorities of the two republics.

Czech's social and economic priorities are to curb inflation, unemployment and support a social security system for all people. The economic and social priorities for the Czech Republic are that they have crossed the Rubicon from an old social economic system to a new one; Czechs are already a completely pluralistic democracy, and a free market economy. Czech economy is at a level of liberalisation and deregulation which is comparable with most Western Europe countries. Czechs have carried out the most spectacular and dramatic changes of prices and trade liberalisation. Their aim is to function normally, to finish privatisation and to start economic growth again".<sup>2</sup>

#### IMPACT ON THE CENTRAL EUROPEAN REGION

Czechoslovakia was a member of the Visegrad Troika. Which was an association of the former communist countries of central Europe-Hungary and Poland. Czechoslovakia has

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2. Vaclav Klaus, "Prime Minister Vaclav Klaus discusses his government's future plans", The Czech Republic, January 11, 1993.

many common interests and, to a great extent, the same problems. The separation of Czechoslovakia has made the troika a foursome - the Visegrad group. The new Slovak Republic has become a key force in this region since Hungary has no border with Poland and Czech has no border with Hungary. All such contacts must be made through Slovakia, the cross-roads of the group. Future relations between Slovakia and Hungary will determine how long the Visegrad group will hold together.

#### FOREIGN POLICY OF THE NEW REPUBLIC

The foreign policy of the Czech Republic differs from that of the Czech and Slovak Republic. Two new countries now exist in somewhat different geopolitical situations. Such factors are among the fundamentals of foreign policy, regardless of the political orientation of the government in power. The Czech Republic has lost direct contact with the government in power. The traditional route to South East Europe, and with the former Soviet Union. For the first time in Czech history, Hungary is no longer their neighbour. Slovakia is the neighbour of Hungary and their relations will determine relations between Czech and Hungary as well. Also, as this country has grown smaller, the relative weight of our neighbours has increased. It is certainly a

different position to that enjoyed by the former Czechoslovakia. But it can be seen as a return to the traditional position of the Czech lands.

"The Czech Republic's government coalition is more politically oriented towards the west than was possible under the Czechoslovakian Federation. The Federation combined a wide spectrum of political representatives from Bohemia and Slovakia and was forced to balance widely differing interests. The influence and attractive nature of the west, and of Western European institutions, was reflected in Czechoslovakia partition".<sup>3</sup>

#### PROXIMITY BETWEEN THE TWO REPUBLICS

The two republics will always remain close in the future because of historical tradition, people being of Slavic origin and both republics, speak the same language and Czech has 20% of its trade with Slovak and both republics will honour the treaties signed in various spheres of life.

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3. Josef Zieleniec, "Excerpts from an interview with Foreign Minister", Appendix IV, January 11, 1993.

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**NEWS PAPERS**

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APPENDIX I

EXCERPTS FROM AN INTERVIEW OF MR. KLABO, AMBASSADOR, SLOVAK  
EMBASSY, NEW DELHI, held on October 20, 1993.

1. What in your opinion were the causes of 1968 uprising? Why did it remain subdued for 20 years after being crushed by the Soviet Union?

This was a process of democratization of the communist regime from inside the communist movement which was ultimately crushed by the invasion of the then Warsaw Pact Treaty armies. Reason for having been subdued for 20 years could be found in a manner in which process of the so-called normalization had gone through and definitely also from the very fact about comparatively high standard of living in my country which did not support the need for urgent action in the field of human rights and freedoms.

2. What are the causes of the Velvet Revolution? Did it suddenly arise after 20 years or was it a continuous process?

The causes for the Velvet Revolution could be from politology point of view traced in a struggle between two totally different approaches of society management, either let the people democratically decide over that issue or "on behalf of people somebody else to do the

same". A practical aspect of that, reasons could be found in dissatisfaction of society over the fulfillment of promises given to it by the then leadership relating to the living standard and other aspects of society life. The basic reason was the gradual degradation of performance of state-run economy which was not capable to cope with requirements of the third millennium. Immediate reason was brutal action of police force against student demonstration which provoked huge wave of discontent throughout the whole country which finally swept away the then establishment. On the basis of this it could be said that velvet Revolution was a result of continuous political process which cannot be distinguished from what was happening in other Easter European countries as well as result of various immediate factors in my society.

3. What are the major differences in the political and social conditions in the communist and post-communist period? How can you compare the two societies?

Major difference are; pluralistic democratic political system, market oriented economy based on private ownership, gradual change of social welfare system. Social system has not yet got its final shape

and that is why it would be pre-emptive to try to characterize it.

4. What factors led to the break-up of Czechoslovakia? What are the historical and immediate causes of Slovak demand of sovereignty?

There have been two basic factors: longterm and immediate. As far as the former is concerned striving of Slovak tribe and later on as a nation to achieve its national emancipation through forming independent state on its own. Immediate was breaking all the barriers for free expression and political activities after the fall of communist regime in erstwhile Czechoslovakia and growing differences between Czech and Slovak political representation over the issue of economic reform.

5. Why in your opinion Czechoslovakia's revolution was a bloodless and peaceful revolution, whereas the break-up of Soviet Union and Yugoslavia in Eastern Europe was dominated by ethnic violence?

In any case we have never got any record of violence between our two nations or while political differences have been settled down in erstwhile Czechoslovakia. The single exception was a short part of lawlessness during early '50s shortly after the communists took over. The overall picture of systematic

change in my country was linked with call for freedom, peace and love while there was significant attraction towards philosophy of non-violence by Bapu Ji as well.

6. Comment on the opinion of the world and general public in both republics over the break-up.

Especially due to peacefulness the world totally accepted break up of Czechoslovakia while general public involved nowadays in sovereign republics is still in a process of its opinion over the issue.

7. What role do you see the new Czech and Slovak republic playing?

As all democratic, independent and sovereign countries in the world.

8. What, in your view, are the economic and social priorities for the Czech and Slovak republic?

Economic reconstruction including change in ownership, management and overall shape of economy; to manage the former, while not disturbing social peace and adversely affecting living standard in general; revival and resurrection of the society life subdued by one single ideology for more than four decades.

9. Are there still obstacles in the split with the Czech republic which you have yet to surmount?

There are no obstacles in the split because split actually took place on 31 December last year. What remains with us is dispute over erstwhile Czechoslovak federation's property which in a couple of cases is still not settled.

10. Do you expect the two republics to stay close in the future?

Yes, very much. Definitely more than any other countries in the world.

APPENDIX II

EXCERPTS FROM AN INTERVIEW OF MR. KAPIC, 1ST SECRETARY, CZECH  
EMBASSY, NEW DELHI, held on January 16, 1994

1. What in your opinion were the causes of 1968 uprising? Why did it remain subdued for 20 years after being crushed by the Soviet Union?

The causes of 1968 uprising were that, firstly, people in Czechoslovakia were in close contact with the west and thus saw the difference between the two societies especially on the economic front and the living standards. Secondly, inside the Communist Party, people rose to rejuvenate the communist ideology. Thus, according to me these two were the prime causes of the 'Prague Spring'.

The Soviet Army crushed it and the party members were expelled. It remained subdued for so many years because during the Seventies the regime was light and police suppression was at its peak. Although, the dissidents did demand the human rights associated with the organization Charter 77, was also repressed by the regime and people who started it were expelled. At the same time, leadership of Communist Parties in 70's gave a certain amount of breadth and the living standards also increased.

2. What are the causes of the Velvet Revolution? Did it suddenly arise after 20 years or was it a continuous process?

The Velvet Revolution was a continuous process for 20 years. The inner conditions and causes of the same are:

- i) The governing Communist Party had completely broken away from masses and lived in glass houses, only people who had close contact with the party were its members, people who were friends of its members and who had professional or moral quality. Thus, this started the dissident movement. The movement enjoyed support from outside the party and abroad. Thus, the erosion of party was a continuing process.
- ii) There was a gradual erosion of the Secret Police which was the key stone of party power.
- iii) These along with other factors interacted with the outside conditions. People in Czechoslovakia responded well to the developments in Russia i.e. to Perestroika and Glasnost. Gorbochev was chief of the party in Russia and architect of Perestroika and Glasnost and thus, Czechoslovakia's leadership was orthodox as compared to him.

3. What are the major differences in the political and social conditions in the communist and post-communist period? How can you compare the two societies?

We are in a transitory process. It will take a minimum of one generation to cut off from Communism in some spheres and to break away from Communist ideology and culture will take more time. In the political sphere, before 1989, Communist Party had the leading role, now there is democracy, government for the people, democratic elections and conditions are bringing new personalities, new leadership. There are 5 parties now in Parliament and more parties outside it. There is competition of parties, freedom of press etc.

In the Economic Sphere, before 1989, economy was state controlled, now a free market scheme is being followed, although there is partial transition which will lead to complete range. Firstly, there is small privatisation taking place, initially hotels were privatised first, later big factories and concerns followed. Different forms of privatisation are being followed - (a) classical form which involved selling of shares, (b) Auction of property i.e. being returned to previous owners and (c) coupon privatisation which is a speciality of my country i.e. a book of coupons



containing 100 coupons is sold to anybody above 18 years, and then they can be invested in factories listed in coupon privatisation scheme.

In the social sphere, before 1989, there was no unemployment, after 1989, we have seen 3½% of unemployment only in some regions and professions. In the communist era, culture was subsidised, now although its open, but not so much. before 1989, everybody had more or less the same living standard, but now there is a gap between rich and poor and the engine of society and economy are rich businessmen.

4. What factors led to the break-up of Czechoslovakia? What are the historical and immediate causes of Slovak demand of sovereignty?

Czech wanted fast changes in the move towards free market policies. Slovakia wanted slow changes and not so deep changes, the reason for this was that the structure of economy was different, it supplied semi products i.e. agricultural goods to Czech factories. Unemployment was much higher in Slovakia, around 10%, thus, for it the process of change was a difficult process.

Slovakia wanted a confederation of industries i.e. a state controlled arrangement. Czech refused a tight

federation. It wanted the 2 republics with a tight central government. Czech placed the offer in front of Slovak's - who declined it and opted for a divorce. In the 1992 elections both sides leading party's won and got 36.7% of votes. The Civic Democratic Party with Vaclav Klaus as its leader come to power in Czech and Movement for Democratic Slovakia with Meciar as its head came to power in Slovakia.

5. Why in your opinion Czechoslovakia's revolution was a bloodless and peaceful revolution, whereas the break-up of Soviet Union and Yugoslavia in Eastern Europe was dominated by ethnic violence?

According to me, division is easier :

- a) When property is small and clearly demarcated, its a problem when population is mixed however since mixing is less in Czechoslovakia, the revolution was smooth.
- b) It was a constitutional process approved by parliament. Twenty seven laws were passed regarding division of property, banks etc, although, division of property is yet to be finalised, which gave the process a lawful framework. Thus, all aspects of divisions are based on agreement on both sides.

- c) Mentality of the people was a great contributing factor to the peaceful division of the country.
6. Comment on the opinion of the world and general public in both republics over the break-up.

The World in general was against the process of disintegration, but later applauded the peace process of divorce.

Initially, the general feeling of the Czech public, was that they saw the division as an unwise step and the majority opposed it.

Slovak side leader also changed their opinion later and expressed this desire to break up, since they felt that Czech's had suppressed Slovaks.

Mr. Kapic said, "that now if you ask, its good that we broke-up, because the change of economic structure would be faster, because we have better conditions, stronger economy and experienced staff. Czech feel that their economy would grow faster now, because initially 45% of national (Czechoslovakia) budget was consumed by Slovakia, when it contributed only 33% of the national product. Thus, although unhappy earlier, Czech are now happy about the break up.

7. What role do you see the new Czech and Slovak republic playing?

Czech, Mr. Kapic, feels has the advantages of staying on the border of East and west. It can act as an intermediary between East and West and be an engine which could support trade between East and West and this could also lead to foreign investment in the country, thereby exchanging its trade and export.

In the Czech national interest he sees it fast joining the Western Economy, becoming a member of NATO and of the European Community, which will be the priority of its foreign policy.

8. What, in your view, are the economic and social priorities for the Czech and Slovak republic?

Czech's social and economic priorities are to curb inflation, unemployment and support a social security system for all people.

9. Are there still obstacles in the split with the Slovak republic which you have yet to surmount?

Property divisions are the only obstacles left to surmount, but would certainly not result in any disturbances.

10. Do you expect the two republics to stay close in the future?

I expect the two republics to stay close in the future because of historical tradition, people being Slavs, same language and Czech has 20% of its trade with Slovakia.

11. What in your opinion will be the social consequences of free market policies being adopted in the Czech republic ?

The social consequences of free market policies being adopted in the Czech republic will be unemployment and inflation.

12. How do you account for the contrasting feature of disintegration and integration in international politics in the post-communist era ?

The two contrasting, features of unification and disintegration that are seen in the 20th century are because certain countries like Germany and Korea were "one" earlier and were divided artificially, therefore, united at the earliest opportunity. Some countries were kept together under the communist tight control, thus after the fall of Communism and emancipation of countries, they disintegrated into their original form.

### APPENDIX III

PRIME MINISTER VACLAV KLAUS DISCUSSES HIS GOVERNMENT'S FUTURE PLANS in 'THE CZECH REPUBLIC', a supplement sponsored by the ministry of foreign affairs, January 11, 1993.

1. What role do you see the new Czech Republic playing?

The Czech Republic will be a democratic, normally functioning market economy and wants to be an equal partner with the rest of Europe. We do not divide Europe into Western, Central and Eastern Europe; we don't live with the old myths about making bridges between the West and The East. Definitely not.

2. What do you expect to conclude renegotiations about the Association Agreement with the European Commission?

The Association Agreement is an interim measure and our interest is in a more substantial agreement; so I hope that we will get it signed as soon as possible. What I am aiming for is real integration with Europe, not just a temporary step.

3. What, in your view, are the economic and social priorities for the Czech Republic?

I would argue that we have 'crossed the Rubicon' from an old social economic system to a new one; we are already a completely pluralistic democracy; and a

free market economy. Infact our economy is at a level of liberalisation and deregulation which is comparable with most Western European countries. In this respect, our task now is to compete. We have already carried out the most spectacular and dramatic changes; by this I mean price and trade liberalisation. Our aims are to function normally, to finish privatisation and to start economic growth again.

4. Are there still obstacles in the split with the Slovak Republic which you have yet to surmount especially with regard to property division?

The split is definitely a complicated issue; I don't think there has ever been a comparable model as to what is going on in this country at the divorce issue par excellence and there will inevitably be doubts, disputes and complications for some time to come. But in principle, we have already signed all the relevant treaties between the Czech and Slovak Republics.

How long we take to divide one piece of property or another will probably capture the headlines both here and abroad but this will not affect the everyday functioning of the two countries.

The real issue is to minimise the loss of trade between the two countries, because both have suffered dramatically with the collapse of the former Soviet Union and the Comecon area; the consequent loss of output and employment was disastrous. As a first step, thus have already signed a treaty on a customs union.

5. Do you expect the two republic to stay close in the future ?

We have signed a really wide ranging network of treaties in various spheres of life and I hope we will both honour and follow them.

6. As the social consequences of your free market policies take effect, do you think the elections will continue its enthusiasm to date ?

I don't think there is a better social policy than a vigorous and functioning economic system are a nonsense.

7. There has been a low inflation rate of late and a stable Czech Crown. See any problems ahead?

Compared with the other newly liberated Central and Eastern Europeans countries, our rate of inflation speaks for itself is which 6% is a real achievement. Our annual inflation rate is therefore unique amongst post communist countries and indeed is more comparable



with Western economics than with Eastern Europe. It is something we must tell the world about.

On the currency issue after separation, we have suggested a three stage plan. Currency union is just the first stage - we plan to have a common currency of Czechoslovak Crowns (CSKS) - and the second stage is a technical conversion of the Crown into two independent currencies. When I say technical, there will be a parity of 1:1- and the third stage will be the floating of the separate currencies.

The question is not how long will we be able to keep a common currency. There is no timetable because it depends on the quality and style of the economic policies of the two republics. I disagree with those commentators who think that Slovak economic policy will dramatically change after the separation of the two countries. I suspect it will be much more pro-market than is generally forecast.

8. Have you plans to speed up the privatisation process?

Privatisation is a major social and multi-dimensional process. It cannot be speeded up. It is something which has its own dynamics and there are so many dimensions to it that I don't believe it can be accelerated.

9. In attracting foreign investment, are you going to be offering special incentives?

Artificial incentives would be inconsistent with free market principles. Countries which are against the free market usually offer special privileges which create islands of prosperity, but this leaves the rest of industry at a disadvantage. Having lived for several decades in a crazy and inefficient world of irrational exceptions, we know this only too well.

Our main platform is to create level economic playing fields and I don't see any reason to lobby foreign firms over and above domestic businesses. On the other hand, I see real and substantial reasons for foreign investors to come to the stable macro-economic framework and a strong currency. We also have the advantage of a highly trained and educated workforce with low unit labour costs. These, I believe, are genuine long term incentives.

10. Germany has made the running to date on inward investment. Are you going to make special efforts to attract other countries?

The fact that there are more German investors in this country to date is merely a question of geographical proximity. It is much easier for them to

drive 50 miles by car than to fly 10,000 miles across the world. I am not frustrated by the fact that there are more German investors than from other countries. If you exclude their two or three biggest investments and compare the balance, the difference is not that dramatic. if we have a good business as far as investors are concerned, then the opportunity is there for as investors are concerned, then the opportunity is there for everyone. .

It seems to me that the Czech Republic is now visible to the world after four decades of lying behind the iron curtain. We try to present ourselves as attractively as possible but that does not include selling ourselves cheaply. When I review books, I sometimes find myself criticising the author for mixing up the short term and long term dimensions of an issue- short run gains may well be long term losses and therefore we are wary of economic myopia.

APPENDIX IV

EXCERPTS FROM AN INTERVIEW WITH FOREIGN MINISTER JOSEF ZIELENIEC, held on January 11, 1993.

1. On January 1, 1993 you became a government minister of a new European republic. How will the foreign policy of the Czech Republic differ from that of the Czech and Slovak Republic which, after all was a larger player ?

You can see the changes in foreign policy from a quick glance at the map. Two new countries now exist in somewhat different geopolitical situations. Such factors are among the fundamentals of foreign policy, regardless of the political orientation of the government in power. The Czech Republic has lost direct contact with the government in power. The traditional route to South east Europe, and with the former Soviet Union. For the first time in our history. Hungary is no longer our neighbour. Also, as this country has grown smaller, the relative weight of our neighbours has increased. So our policy is now more markedly connected with the policy of the west and with the fate of western Europe than before. It is certainly a different position to that enjoyed by the former Czechoslovakia. But it can be seen as a return to the traditional position of the Czech lands.

Our general policy thrust towards integration with western Europe will now be much more straightforward. The Czech Republic's government coalition is more politically oriented towards the west than was possible under the Czechoslovakian Federation. The Federation combined a wide spectrum of political representatives from Bohemia and Slovakia and was forced to balance widely differing interests. The influence and attractive nature of the west, and of Western European institutions, was reflected in Czechoslovakia partition. We owe European institutions a debt, they assisted Czech efforts to ensure the separation proceeded in an internationally acceptable manner. Neither new country wanted to do anything which would prevent its access to Europe. The peaceful course of the separation is also a victory for the European institutions and the values that they represent in our eyes.

2. What will be the impact on this region of the creation of two new Central European countries?

There will be certain changes in emphasis. We were a member of the Visegrad Troika. Which was an association of the former communist countries of central Europe-Hungary and Poland. We still have many

common interests and, to a great extent, the same problems. The separation of Czechoslovakia has made the troika a foursome - the Visegrad group. The new Slovak Republic has become a key force in this region since Hungary has no border with Poland and we have no border with Hungary. All such contacts must be made through Slovakia, the cross-roads of the group. Future relations between Slovakia and Hungary will determine how long the Visegrad group will hold together.

3. Do you believe that the partition is a blow to the Civic Democratic Party, or is it to their advantage?

In recent years, especially in the election campaign, the CDS made great efforts to try and hold the common state together. We were the only party with members throughout the Federation. So obviously, the separation means that our efforts were not successful, but our lack of success is a symptom of a movement in the country, which has roots far deeper in history than the election of personalities or parties, in Slovakia or Bohemia. This process cannot be stopped. If the electoral results in Slovakia had been different, perhaps the separation would not have come about now or in this manner. But it was inevitable.

Nevertheless, it seems to me that there is a great difference between this movement and similar current attempts in other countries. Despite exaggerated passions, we came to resolution through the law and by mutual agreement. This alone is a great success for the IDS, and a great personal success for Vaclav Klaus.

4. Europe believed it had a moral debt to Czechoslovakia over its tragic fate after Hitler's Munich pact. Do you think this affection may fade?

Czechoslovakia, or more precisely its communist government, tried to exploit such sentiments over the last 40 years. We wish to be judged on our own merits and are not interested in feeding philosophy to the people. This government is more concerned with the attitude towards life on the foundation of a healthy society, accepted by the world because of its decent and conduct. To achieve this end we do not need to draw on past grievances.

5. Don't you think that the only real chance for the new republic is a favourable economic environment?

I have already stressed how important we feel it is that the country we build and the society we live in is accepted at home and abroad. So having an economy which functions well is essential. We do not want to

travel the globe with an outstretched hand. Begging. This is an integral part of our identity. We want to create a country which can afford to be self-confident. In order to be self-confident, we must be economically viable.

6. Czechoslovakia has the best macroeconomic indicators of all of eastern European countries. The Czech government is made up mostly of economists. The CDS election campaign was based on a successful anti inflation policy, and the public reacted to this. Does this reveal some deeper cultural trait?

May be. The government is made up of economists, which makes it a government with solid economic basis for the future state, so our election campaign was valid. We want to build national self-confidence on this basis, not glorify the past.

7. Foreign newspapers have speculated that the Czech Republic may fall too far under German influence. Are you afraid of this?

No. We have the chance to find a solution to the perennial problem of the relationship between a small and a large nation, a theme which resonates through our entire history. It is a situation which must be viewed in the context of the new face of the European



continent and the process of European integration. For the first time in history, the relationship of a small country to a large country is subject to multilateral European discussion. It is realistic for us to have such a relationship with Germany. The move to an integrated Europe is an historical process which will not be completed in a matter of months or years. It will take decades, may be centuries. But it gives us the opportunity to alter our relationship with Germany which many see as carved in stone. This is a truly historic chance.

APPENDIX V

DECLARATION OF THE CZECH NATIONAL COUNCIL TO ALL PARLIAMENTS  
AND NATIONS OF THE WORLD

The Czech National Council, being a freely elected legislative body of the Czech Republic and mindful of a millennium-long tradition of the Czech State, makes the following declaration:

- \* The Czech Republic as of January 1, 1993 in accordance with its constitutional law and within the legal framework of the Bill of Dissolution of the CSFR adopted by Parliament of CSFR and as a successor state following the dissolution of the CSFR, will become an independent and sovereign state.
- \* In the tradition of the democracies of the world, the Czech Republic will, in its internal and foreign policies and within the context of its laws, unconditionally honour the human rights and the basic freedom of the individual which create the basis for freedom, justice and peace.
- \* The Czech Republic declares its intent to become a member of the Council of Europe as soon as possible and to become a contractual party of the European Agreement on Human Rights. The Czech Republic will respect all

laws and obligations concerning national minorities in accordance with international standards.

- \* The International relations of the Czech Republic will act in accordance with international law and will respect the aims and principles of the UN Charter, the final Helsinki Agreement and its subsequent amendments. As one of the legal successor-states to a co-founding member of the UN, the Czech Republic reaffirms its determination to respect the principles of this organisation and, within its framework, will continue efforts to strengthen peace and security and to achieve peaceful solutions to existing conflicts as well as to aid the search for solutions to the world wide problems of mankind.
- \* The Czech Republic will assist in the development of cooperation in Europe aimed at creating an effective system of security. The Czech Republic will carry out all its obligations concerning the reduction of armed forces and armaments to a level adequate for defence and will support measures to strengthen multilateral and bilateral trust and stability.
- \* The Czech Republic will create the political, economic, contractual and legislative conditions necessary for gradual association with and for future membership of

the main European political, economic and other organisations. The Czech Republic confirms all its obligations undertaken earlier by the CSFR in respect of the Association Agreement with the European Community and expresses its interest in a rapid transfer of the aforesaid Association Agreement to the Czech Republic.

- \* The Czech Republic will endeavour to extend its participation in the world economy and to seek continuous succession of membership of the International Monetary Fund, the World Bank, GATT and the European Bank for Reconstruction and Development.
- \* The Czech Republic as of 1 January 1993, in accordance with the principles and within the framework of international law, recognises the provisions and obligations of all multilateral and bilateral treaties and agreements to which the CSFR was a party on that date.
- \* The Czech Republic intends to establish diplomatic relations with other countries and to develop mutual relations on principles of sovereign equality, non-interference in internal affairs, respect for territorial integrity and political independence and inviolability of frontiers.
- \* The Czech Republic will assume its share of the financial obligations of the CSFR towards third parties and

international organisations in accordance with appropriate constitutional law and the Agreement between the Czech Republic and the Slovak Republic on Division of the Assets of the Federation.

The Czech Republic will pay special attention to its relations with the Slovak Republic. Agreements and treaties concluded between the respective republics will ensure bilateral co-ordination and cooperation to enhance the mutual ties between the two states and to benefit its citizens.

The Czech Republic is obliged by its Constitution through the votes of the deputies of its legislative body to develop itself as an integral part of the community of European and world democracies and accepts this commitment as the universal aim of its internal and international policies.