INTERNATIONAL ECONOMIC RELATIONS OF SLOVENIA

Vojka Ravbar

*State Secretary for International Economic Relations,
Ministry of Economic Relations and Development, Slovenia*

Present Situation

Slovenia is a small country. Therefore, the notion of beneficial effects of foreign trade on economic growth and restructuring, and general economic development and performance is particularly relevant.[1] Slovenia opted for an outward-looking, export-oriented development even before 1991, and has in the recent years of its independence considerably liberalised its trade policy. Since 1991, the share of foreign trade (excluding trade with ex-Yugoslav republics) in GDP[2] has significantly increased. Developed countries now account for more than 75% of total foreign trade (67% with the EU). The high share of the EU confirms the EU's major importance for Slovenia's international economic relations. The product composition of foreign trade has not changed substantially since 1992. In exports, raw materials amount to 45%, consumer goods 45% and equipment 10% of the total, while for imports the figures are 60%, 25% and 15% respectively. Of all the transition countries, Slovenia has the most similar product structure of foreign trade to those of Western European countries. Slovenia has about US$21bn foreign trade per year, showing how strongly it is involved in international relations.

Slovenia started trade policy reforms in the late 1980s aimed at reorienting import substitution to an export oriented development strategy. After independence, a variety of measures has been undertaken to **increase the openness of the economy and provide an institutional framework** which can foster the international competitiveness of domestic producers:

- In 1991, the administrative regulation of trade was reduced. In 1993 (Foreign Trade Act), foreign trade procedures were further liberalised and simplified by, for instance, the elimination of registration for foreign trade operations and a decrease in quantity and value restrictions on imports. **In 1996, 98% of imports were free from quantitative restrictions** compared to 78% in 1990. Slovenia keeps licences for products (such as weapons and drugs) that are under international control according to international agreements and conventions.
- Customs Act and Customs Tariffs Act from 1996 almost entirely harmonised Slovenian trade law with EU legislation. Customs duties have been modernised

and harmonised with the standards of developed economies. The average tariff is 10.7%, but the weighted average rate of tariffs actually collected is lower at 5.7% (in 1996). The **new combined Customs Tariff gradually reduces the official tariff rates and liberalises foreign trade in accordance with international obligations** to which Slovenia adhered to (WTO and CEFTA membership, Europe Agreement and other free trade agreements).

- **FDI regulation** is based on the **national treatment principle.** The major pieces of legislation relevant for foreign investors are the Company Act and Takeover Act - which does not contain specific provisions for foreign persons - and the draft **Foreign Exchange Operations Act**, to be adopted in 1998, which will replace the existing Foreign Investment Act and **fully apply the national treatment principle**. Slovenia has so far concluded 16 **Investment Protection and Promotion Agreements** which contribute to the protection of foreign investments in both contracting parties.
- Slovenia has started to gradually introduce its own **technical standards** (predominantly transposed from European documents or documents from International Standardisation Organization and International Electrotechnical Commission); until now 2,928 Slovenian standards have been introduced. Certification in accordance with relevant technical regulations in use is also mandatory. Slovenia applies the Agreement on Technical Barriers to Trade in the framework of the WTO Agreement.
- Since 1991, Slovenia has become a **member of WTO and CEFTA** (the Czech Republic, Slovakia, Poland, Hungary and Romania), an **associate member of the EU**, and concluded a **free trade agreement with EFTA** (Norway, Switzerland, Iceland and Liechtenstein), and a number of individual countries: **the Baltic states** (Lithuania, Latvia and Estonia), **Macedonia, Bulgaria, Croatia, Turkey and Israel**. Over 80% of its trade is with countries with whom it has some type of a free trade agreement that fosters the free movement of goods.
- Agreements with 30 countries are operative, the final two will be in the second half of 1998 because they were only signed in May this year. All have **transition periods** which end in 2000 or 2001 at the latest (in some it has already ended). Customs duties - set by the government in special regulations - are set to decrease every year during the transitional period. The liberalisation of trade in agricultural goods is limited in all agreements.
- Duties on less sensitive goods decrease more than those on more sensitive products and only for preferential quotas which are agreed multilaterally or bilaterally every year. The set quotas can be exceeded, but the excess goods imported will not have preferential treatment.
- Slovenia is a part of the so-called **diagonal cumulation of rules of origin**, which encompasses 29 countries (15 EU countries, 4 EFTA countries, 6 CEFTA, the 3 Baltic countries and Bulgaria) and were implemented from the beginning of 1998.

In spite of liberalisation and progress in the field of trade policy since 1991, many tasks remain to be accomplished, in particular those related to **increasing the competitiveness** of the Slovenian economy, to **adjusting to the rules of international organizations and institutions**, and to **harmonising the** Slovenian **regulatory framework with the acquis communautaire**:

- High wage costs endanger the competitiveness of Slovenian exports and reduce the chances of penetrating new demanding markets.
- Trade cooperation remains highly concentrated on only a few EU countries and there is no great diversification of trade markets.
- Services are not adequately incorporated into international economic relations and exports of services are concentrated on traditional services such as tourism and transport. The main reason is the protection of most services in the past and because the competitiveness of service providers is low, particularly in financial and business services.
- FDI in Slovenia is over US$1,000 per capita and we would like to attract more because it can help in restructuring the economy, enabling it to catch up with and integrate into the EU. For these reasons, we established the Trade and Investment Promotion Office which strongly cooperates with similar foreign institutions and companies.
- We are working on completing the legislation for introducing VAT, an important component of a market economic system.

Objectives and Targets

Intensive international economic cooperation is the nucleus of Slovenia's outward-looking and export-oriented development concept. Slovenia's most important partners are and will be European countries, primarily EU economies. To compete in this arena, Slovenia should adjust its development concept, economic and legal systems to that of developed (European/EU) countries and improve the competitiveness of its enterprise sector, i.e. its products and services. Slovenia is interested in **deepening trade cooperation with other groups of countries (EFTA, CEFTA) or individual countries**. Based on the above considerations, the following are the main objectives of Slovenia's international economic relations policy:

- To exploit static and dynamic gains from trade for faster economic growth and to advance our catching up with the developed European countries.
- Internationalisation of Slovenian economy in line with new determinants of competitiveness. In the context of internationalisation and globalisation, socio-institutional factors (research and technology development, innovation, education, monetary stability, social consensus, public debt management) are becoming an increasingly important determinant of competitiveness. Slovenian enterprises should strengthen various forms of international business cooperation and not rely solely on traditional trade links.

- Increasing the share of trade in goods and services in GDP, together with the maintenance of external equilibrium as a factor of economic stability. This necessitates the strengthening of existing and developing of new competitive advantages, i.e. technological modernisation of the economy and upgrading the quality of education, managerial and organizational skills. Exports need to be supported by the service sector.
- **Full membership in the EU and a global orientation** of international economic relations. EU membership is of primary importance for economic, political and security reasons. It assures for Slovenia the expansion of its market, inclusion into European flows of capital and the transfer of technology and know-how. However, Slovenia will retain its global orientation for market as well as for technological reasons.
- The process of establishing the same conditions as exist in developed market economies (attestation, certification, labelling, country of origin rules, standards and technical regulations, veterinary and sanitary rules, quality control, etc.) for domestic and foreign producers on the domestic market is continuing.
- A very important role in the field of international economic relations belongs to the **Slovene Export Corporation** which has improved in terms of capital and the number and quality of services it offers to exporters.

Foreign Trade and Customs Regime

Slovenian legislation on foreign trade and the customs regime complies to EU standards to a large extent. Slovenia applies EC Combined Nomenclature and fulfills its obligations to the European Agreement and White Paper requests related to conditions for imports of goods from the EU. Free flows of goods will be achieved only by eliminating all measures which restrict trade and are aimed at domestic or imported goods. As a member of WTO and as a party to several bilateral and multilateral trade agreements and arrangements, Slovenia has already expressed its readiness to take part in overall trade liberalisation. Obligations arising from the Europe Agreement are merely concrete actions that are to be taken to achieve those objectives:

- Restructuring of the Slovenian enterprise sector to increase its international competitiveness.
- Promotion of exports and other forms of international economic cooperation, especially FDI.
- Incorporation of Slovenia into the TARIC System (customs databases).
- Providing effective export control for dual-use products (adoption of a law that will regulate the export of goods which can be used for civil and military purposes).
- Establishing the National Trade Facilitation Body (PRO Committee) as part of CEFACT and as part of the activities of the SECI Working Group on Border Crossings.

Economic Development in 1997 and Prospects for 1998

Economic development in Slovenia in 1997 was marked by a mixture of domestic and foreign economic movements. Foreign demand was the main driving force of growth. In 1997, exports of goods rose 11.3% and imports of goods 9.6% compared to 1996 in real terms. As exports grew slightly faster than imports, the trade deficit narrowed by US$114.8m compared against 1996 to stand at US$766.9m in total. Given the traditional surplus in services, the lower trade deficit still allowed for a surplus on the balance of payments current account of US$70m (0.4% of GDP). Price and cost competitiveness of manufacturing production slightly deteriorated in 1997. This is likely to be largely a consequence of slower productivity growth and the appreciation of the tolar against the currency basket of 0.5%.

The real volume of trade with the EU is rising. In the first two months of 1998, 66.8% of goods exports went to EU, 13.3% to the countries of former Yugoslavia and 6.2% to the CEFTA countries. Exports of goods to the EU rose in real terms by 14.1%, exports to the Yugoslav countries by 3.9% and to CEFTA countries by 14.9%. Growth in imports (imports from the EU increased in real terms by 19.4%) and the subsequent trade deficit was largely a consequence of further appreciation of the tolar. Using the quarterly figures for the 1993-97 period, one can estimate that a 1% real appreciation of the tolar increases real imports of goods by 0.5%. In addition to the exchange rate, production is the most important factor in the real growth of imports - a 1% increase in domestic production is estimated to raise real imports of goods by 0.7%.

Forecasts of international economic development in 1998 are relatively favourable. In addition, economic growth and industrial production are expected to accelerate in Slovenia's main trading partners, namely Germany, Austria, Italy and France. Provided that Slovenia maintains the achieved level of export competitiveness in manufacturing and favourable international economic developments continue, high growth in exports of goods and services should continue in 1998. As in 1997, foreign demand should be the main generator of growth in 1998. Domestic demand is expected to rise less lively because economic policy has been relatively successful in stabilising wages. As in previous years, the balance of payments current account and the public finance account are expected to remain more or less in balance in 1998.

Notes

1. According to the OECD (Economic Survey on Slovenia), Slovenia has the highest correlation coefficient between export growth and industrial production (0.6) among all the transition countries.
2. In 1995, the ration of exports and imports of goods and services to GDP was around 110%.