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## Slovenian foreign policy towards the European integration

When Slovenia decided for the independence and secession, the cardinal question posed was whether a small community could survive economically as an independent entity which has decided for the independent policy.

Bearing in mind these facts two questions arise:

firstly, does a small nation has a viability in comparison to the larger one; and secondly, is it better for a distinct nation to be a part of a larger state or be an independent nation state?

In order to picture Slovenia's role in European integration, one shall first take into account Slovenia's essential indicators and indicators of development of a small country.

Today, Slovenia is a small but relatively developed small country (SC). If a criterion for a SC is:

- a) number of inhabitants (up to 10 million) and
- b) the size of its territory (up to 100,000 km<sup>2</sup>).

One should not forget that there is a difference between a small and a micro country (up to 1 million inhabitants and 10,000 km<sup>2</sup>).

If one is to consider the definition of a SC as proposed by Marjan Senjur, there are three groups of small countries:

1. small least developed countries;
2. small middle developed countries; and
3. small developed countries (Austria, Denmark, Ireland, Switzerland, Israel and Slovenia in principle) (Senjur, 1992: 9).

In order to compare advantages and disadvantages of a SC, we find the following:

1. Disadvantages:
  - a) SC have no large market, the scale of production is not massive since there are limitations in natural, capital and human resources;
  - b) small internal market gives companies no real competition like a large global economy can;
  - c) sovereign risk, that is the negative perception of the creditors towards small country's ability to repay its debts and the higher interest rates and guarantees that are needed in order to obtain loans;

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d) the limitation of resources allocated to the research and development. SC have also disadvantages in investment and capital goods production.

## 2. Advantages:

a) SC can easily develop the so called niche strategy where large countries are limited.

b) SC main focus is foreign trade—firstly, export prices of goods exported from the SC should be in accordance with the world prices which results in a better competitiveness of SC, and secondly, due to the relatively small scale of imports, the large countries have no intention of limiting the scale of exports from small countries;

c) SC have great advantages in primary and secondary education while there are hindered in the area of higher education;

d) there are several areas where SC have advantages over the larger countries, e.g. entrepreneurship, transfer of technology, search for new markets. At the same time there are very innovative in the field of marketing and production organization (Senjur, 1992: 12–15).

The economic development is comprised of many factors. Economic disadvantages of SC are overcome with a quality of social institutions which are much more socially innovative as institutions in large countries, they have a relatively simple policy making process and are more nationally cohesive. One shall take into account good communications as well. The advantages of SC are also the so called megatrends of cultural diversity and nationalism, the triumph of individual, transition from centralization to decentralization and from hierarchies to networking. Lately, the rise of the global economy where the world is supposedly becoming a single market and a trend of moving away from the material intensive products have left its mark as well. Small, family run companies of small countries are playing a role of a subcontractor to the system of huge companies in large countries, therefore are a part of entrepreneurial networks. To summarize, the idea of Schumacher "Small is beautiful" can be accepted only if you carefully examine and except all of the above.

## *The foreign policy of Slovenia*

The prime focus of Slovenian foreign policy at this very moment is to form its own view of Slovenia's position in the world, to define main ideas and initiatives, as well as the objectives of its policy, and to establish bodies that would be carrying out the adopted policies and objectives in the area of international relations. Many of the mentioned points have already been fulfilled in the past two and a half years since independence.

The classical resources of power have been replaced with new ones, like the flexibility and ability to adopt. The role of interdependence is raising, therefore, it is of significant importance for the state to define its foreign policy in accordance with the international policy. Priorities of the Slovene foreign policy are as follows:

1. the continuation of relations with new states in the territory of former Yugoslavia with a special respect to the case of succession;

2. membership of Slovenia in the Council of Europe and the activities in the CSCE, Conference of Local and Regional Authorities of Europe, Initiative for Cooperation of Central European Countries, the Alps-Adria Region, European Border Region, etc.

3. negotiations with the EC for the establishment of an association between the EC and Slovenia should be carried out in parallel to the Slovenia's negotiations with EFTA member countries on the conclusion of a free trade agreement. Slovenia has some advantages in the negotiations with the EC and EFTA, that is that there are several agreements that have been signed between the EC, EFTA and Vishegrad Troika.<sup>2</sup> The prime advantage is that the topic of the structure of the agreement shall not be negotiated since the model agreement has been made and that our economical position is far better in comparison to the Vishegrad Troika. But one should be aware of the latest developments: after the rejection of the EEA by the Swiss voters, the EFTA is blocking further negotiations with Slovenia, and the so called Greek syndrome<sup>3</sup> has emerged in the EC.

4. these new treaties should not overshadow the old bilateral agreements as for example between SFRY and BR Deutschland which are the sign of good relations we have with several countries. Therefore, we shall sign new agreements as an independent state with countries like France, Italy, Austria, UK, Japan, USA, etc.

5. Slovenia will not lead the world politics (Turk, 1992: 134–136).

Bearing in mind the fact that Slovenia is a SC, its foreign policy shall carefully distinguish between the right scope of regionalism and universalism. Although we said that Slovenia will not lead the world politics, it should be clear that the total abandoning of universalism is unacceptable to Slovenia's foreign policy since today's international community is universal. International relations are becoming world politics. If you are not dealing with the world politics, this could result in a notion that the world politics will be dealing with you. The future of Slovene foreign policy lies in the regionalism which shall not completely forget the components of the universalism. The examples of the EC and the Asian tigers show that you shall not follow just regional policies but that you shall be there where there is a chance/possibility. As a Yugoslav republic, Slovenia played an active role in the international politics. Thanks to the extended relations with international organizations in second Yugoslavia, including a founder position in the UN and in the Bretton-Woods institutions, Slovenia was acquainted with world affairs and also participated in them. In the federal state, Slovenia was able to play an active role only in the regional organizations. Since becoming independent, Slovenia not only participated as a state but also took advantage of ties it developed in the previous years (Bavaria, Friuli-Venezia Giulia, Stiria, etc.). If Europe is to be a Europe of nations, states and regions, then all of the three mentioned components are already included in the entity of Slovenia (Bučar, 1992: 139–147).

The Slovene foreign policy will have to be selective and should be focused on:

- a) leading powers in international organizations;
- b) open cooperation with regional and global actors (members of the Security Council, leading powers in the EC);
- c) we should effectively cover the continents due to our economic interests with a special treatment towards USA, Germany and Japan; and
- d) we should focus on those markets which we could easily penetrate (Bučar, 1992: 143).

<sup>2</sup> Vishegrad Troika refers to the group of four countries (Poland, Hungary, Czech and Slovak Republics) after the division of the CSFR into the Czech and Slovak Republics. Today, the Vishegrad Troika has been replaced by the Vishegrad Conference.

<sup>3</sup> Recently, Italy tried to block the entrance of Slovenia into the Council of Europe in the same way as Greeks had been blocking the recognition of Macedonia.

Due to the fact that the cardinal topic of this paper is the relations between Slovenia and the EC, we believe that it's now time to draw closer to our purpose. It seems that Slovenia's strategy for the European integration is to first come closer to the EC in the economic field (to the standards of the EC) and to later become a full member of the EC, so the institutionalization should therefore come in the second part of the integration process.

The twelve have said on many occasions that there are two basic conditions for the EC membership—democracy and market economy—we believe that a considerable amount of time should be given to the question of economy.

When the joint European Economic Area will emerge (joint EC/EFTA effort), then the largest market based on four freedoms will emerge: free movement of goods, services, people and capital. Parallel to the negotiations between EC and EFTA on the formation of EEA, one should be paying attention to the final negotiations of the GATT Uruguay round. International marketing, organization and technology will play a prime role in the EEA. The new phenomenon that has emerged is international production which is essentially connected to the international marketing and in direct contract to the notion of isolated sovereignty. Therefore, Slovenia is forced to allocate effort and time to be fully integrated into Europe. Slovenia should base its position in Europe on its competitive advantage strategy:

a) position itself as a permanent supplier on the basis of low price. Here, Slovenia is limited by the Visegrad Troika which has cheap labor but if Slovenia wants to become full member of the EC together with the Visegrad Troika, this strategy is double-fold: Visegrad's cheap labor is a direct competitor to our labor market, the idea is known as "prisoner's dilemma"; and if Slovenia is a part of the Troika, anti-measures of the EC towards cheap labor force such as dumping pogrom apply to Slovenia as well.

b) Slovenia has to differentiate itself based on its quality;

c) be aware of the importance of know-how and licenses. In this field, Slovenia has an advantage since its companies are integrated into foreign business networks:

d) niche strategy<sup>4</sup> (Hrastelj, 1992: 111–112).

The above mentioned competitive advantage strategy has to be applied while Slovenia makes its strategy of appearance in international community. The strategy should be based on:

a) segmentation of the markets;

b) establishment of its distinguished trade marks;

c) entrance into industrial partnerships;

d) establishment of business departments in the EC;

e) organization of a investment system in Slovenia;

f) to intensify entrepreneurship of those industries which perform above average, and

g) be mediator in relations with new states in the territory of former Yugoslavia (Hrastelj, 1992: 112–113).

New tendencies in the world economy are giving the small countries even

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<sup>4</sup> Slovenia should find a product or a technological process which should be distinct of Slovenia. At the same time, niche strategy refers to a relatively small scale of Slovenian products which can be easily exported.

bigger advantages as before. The advantages that one were based on the natural resources have been replaced with knowledge which includes the knowledge of what others know. The new technology is at the same time lowering the distance (in time and in price); therefore, the role of a big national market plays no viable role any more. Only companies with a high level of internationalization which are export oriented can take the advantage of this.

Research in the region of Alps-Adria has showed that the level of internationalization of Slovene companies can easily be compared with the level of internationalization of those companies, the countries of which are members of the EC. Slovenia is the world's 21st country in export per inhabitant, if we use data of the Slovenian Statistics Bureau<sup>5</sup>, way ahead of Spain, Portugal or Greece (Svetličič, 1993: 27).

Therefore, there should be no big difference in Slovenia's development strategy and its strategy in international economic relations due to a high level of export in our GDP. In order to succeed, Slovenia has to export at least 50 percent of all of its goods and services, even better, if it wants to perform excellently, it should export between 60 and 70 percent of its goods and services. The strategy of the future economic development of Slovenia should be based on the evaluation of present economic situation and at the same time on goals it likes to reach.

The strategy should be based on:

1. identification of current and desirable competitive advantages;
2. adjust to the global world changes;
3. search for market niche; and
4. realism and pragmatical ambition.

While it is important for Slovenia to know which are Slovenia's advantages, it is also very important what foreign investors believe Slovenia's advantages are. In the area of Foreign Direct Investments, Slovenia's competitors are not only new states of the former Yugoslav republics also Eastern and Central European (ECE) countries, is some areas also North African countries and the so called Asian Tigers.

But in comparison with ex-socialist countries, Slovene companies have some solid advantages since they have longer tradition of presence on western markets, have better knowledge and they acted for years as owners of companies even thought they were not. Therefore, the transition to the market economy will be much easier for the Slovenian companies. One survey shows that Austrian investors say in 62.5 percent of all cases, Slovenian managers performed better than the managers from ex-socialist countries and said that in 57 percent our managers have the ability to perform equally good as the Austrian (Svetličič, 1992: 178).

But above all, Slovenia has two types of advantages:

1. location specific advantages: included are a high level of economic development (out of all ECE countries, Slovenia has the highest per capita income); Porter's "demand conditions" (demanding internal buyers put pressure on the companies which are highly competitive) (Porter, 1990); developed system of related and supporting industries in Slovenia (networks of suppliers); relatively healthy environment; and economic and political stability of Slovenia.

2. firm specific advantages: availability of still low cost skilled labor with high

<sup>5</sup> This data cannot be completely compared with the data from the World Development Report. One shall be aware of the "law of nature" which says that in principle SC have larger export per inhabitant than large countries, therefore one should not take the data absolutely.

working habits (this is a good in comparison with the OECD countries but not with ex-socialist countries); high level of internationalization of Slovene companies; Slovene companies also developed trade marks of their own (which are internationally recognized); and knowledge of western markets and contacts with companies in ex-socialist countries (Svetličič, 1992: 75).

If Slovenian economic area would fully integrate with the European, then Slovene companies would be faced with a harsher competition which would in a long term bring positive effects. Therefore, Slovenian economic policy should be in favor of the progressive liberalization of economy, should open its market for foreign products and should slowly decrease funds allocated for the farm subsidies. The integration with the EC and EFTA will bring, in its final stage, the liberalization of the Slovenian foreign trade.

Three key processes which are fully integrated will have an unreversible effect on Slovene economy. These are:

- a) liberalization of Slovene economy, the process of which started with the emergence of independent state and with the emergence of our own system of protection;
- b) further integration processes in Europe;
- c) adjustment of process which will allow the Slovene economy to join the EC and EFTA successfully.

Before independence, Slovene economic policy was protectionalist, the base of which was not in the thoughtfully designed but on the ad hoc measures. First stage of the liberalization started in 1989. For small countries like Slovenia with economy in transition, it is of a great importance to be a member of the EC, of a community of developed European countries. Since it is very important for the integration processes to look at the methods of protectionism used by different countries, we will closer examine the Slovene system with the one used by the EC member states.

The prime conclusions are:

- a) the level of Slovene non-weighted tariff protection is almost as twice as in the EC countries (12 percent in comparison to the 6.8 percent);
- b) but the final level of the tariff protection of the Republic of Slovenia is 27.5 percent if we take into account other import charges;
- c) Slovenia decided to abandon quantitative restriction on imports but has not replaced them by price instruments. We have to know that the non-tariff barriers are rising in size and importance.
- d) it seems that the Slovene agriculture is less protected as the EC agriculture is.
- e) Slovenia imposed greater tariffs on the products of processing industries and the average tariff rate in Slovenia equals to 12.3 percent while in the EC it is only 7 percent.
- f) In the EC, the highest burden of taxes lie on the consumer goods (9.1%) while in Slovenia the highest burden lies on the capital goods (13.8%).
- g) If Slovenia wants to adjust itself to the EC standards, then it must lower the average rate of tariffs which are the greatest source of Slovenia's national budget.
- h) Liberalization of Slovene foreign trade will have to be gradual (Majcen, 1992: 100-106).

On April 5, 1993, Slovenian Prime Minister Drnovšek signed an agreement between Slovenia and the EC which is the continuation of the Yugoslav Preferential Agreement but is more specific to the advantage of Slovenia. The agreement



has three parts: financial, trade and transportation and it doesn't include labour since the agreement would then had to be ratified by all memberstates. It includes evolutionary clause, that is, some higher level of cooperation between the EC and Slovenia is foreseen but is not like the agreement between the EC and the Vishegrad Troika since the agreement with Slovenia did not set a deadline by which the transformation period should end. The advantage of Slovenia is that the pace of the integrations can be set by Slovenians. At the moment it looks that the association status of the Vishegrad Troika countries has no practical value in comparison to the status of Slovenia. The recent blockade of meat exports from Eastern Europe hit not only Slovenia but also Hungary. The value of the agreement for the Slovenian trade is that the export and import flows are more open and free.

## *Conclusion*

The EC Summit Meeting in Edinburgh, Scotland in 1992 is for Slovenia and other ECE countries a historical event. For the first time, the EC governments committed themselves to letting the Central European countries join the Community. Together with two basis criteria for entry (democracy and market economy), the EC governments put forward five reasons for keeping the ECE countries waiting:

1. Migration: the EC is afraid of large influx of economic migrants. The fear was not confirmed by the cases in Hungary and Poland where the standards of living and tradition are completely different as in the EC and which have resulted in the lowest migration rate in Europe. On the other hand, keeping Bosnia out of the EC has not stopped its flood of refugees.

2. Sensitive industries: due to the low production cost, the EC governments are afraid that ECE countries would destroy their producers. This is not true since the rate of exports of the ECE countries to the EC is too low to do any real harm. Much of the export growth of these countries is coming from new private companies concentration on high technology goods.

3. Central Europe is not ready: in 1989, Greece and Portugal were as rich as the Vishegrad Troika was then but the economies of the ECE have contracted by 1/3 in the past three years. The Vishegrad Troika's annual growth rate should therefore be 10 percent in the next three years in order to reach today's level of Greece and Portugal who should stay at present level. The advantage of Greece and Portugal is that they have not only the resources but also the steering power.

4. Institutions: while widening the EC with new members, the Community would change its character. It would no longer be a club of west European states but an institution for all Europe. That was Monnet's and Schuman's original idea.

5. Cost: The Central American syndrome is too often used as argument by the richest EC countries which are afraid of the increasing cost of keeping the EC standards the same. The poorest EC countries are afraid, on the other hand, that the development and agricultural funds would be shared with new members. Because of the integration of the richest and the poorest countries of the EC, we are afraid that the looser would be the Central European countries. One should know that there is no love in politics, only an interest. And the interest can change. High cost can become acceptable if expected benefits are great enough.

We know why Portugal and Greece suddenly became interesting for the EC. Together with the fact that Central Europe is likely to turn into one of the worlds

fastest growing economic regions, what could be other reasons for the interest of the EC for ECE countries:

- a) it might be the avoidance of turmoil on the EC eastern borders;
- b) the alliance with the ECE countries could be important in coping with mighty Germany; and
- c) EC should establish its influence in the region while it still can.

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