Economic Effects in Slovenia within Integration in European Union

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Abstracts: The study is going to analyze the economic development of Slovenia before and after membership in European Union. We will discuss whether economic cooperation between Slovenia and European Union members increased or decreased after European Union membership. This article provides a comprehensive and contemporary comparative analysis of the economic performance, the economic structure and the trade relations between Slovenia and European Union countries, allowing us to detect basic trends and developments. We will compare the economic performance of Slovenia and other European Union members, looking at aggregate figures from integration in European Union such as foreign trade, Foreign Direct Investment, Gross Domestic Product and its structure, level of structural unemployment and employment, inflation and level of income.

Keywords: European Union membership, Foreign Trade, Foreign Direct Investment, Gross Domestic Product, Unemployment.

Introduction

The idea of peace and stability of a united Europe was the dream of philosophers and visionaries. On the ruins of World War II grows into the forefront the effort to create a new structure of Western Europe, based on common interests, based on treaties guaranteeing the rule of law and equality between all countries.

Basis for the future unification of Europe was laid on 9th of May 1950 by French Minister of Foreign Affairs Robert Schuman and economist Jean Monnet. They developed a plan of the European Coal and Steel Community, known as the Schuman Plan or Plan ECSC Treaty. This proposal was unanimously welcomed by Germany, Italy, the Netherlands, Belgium and Luxembourg. These countries, together with France were founding members of the European Coal and Steel Community, which preceded the European Economic Community (EEC) and the European Union today.

One of the most important products of the integration processes is a common internal European Union market.

Towards the creation were concluded agreements, treaties and pacts and such developed through debates and economic integration to the form in which we know it nowadays. Not ideal and it is not in final form yet but its existence for us appears to be justified (Imeri, Bajusova, 2014).

Methods

The main objective of the paper is assessment of the level of development of Slovenia within the European Union integration. The methodology in this paper does not use any structural model, but we used available information, databases and publications to compare the stage of development of economic indicators such as Foreign Trade, Gross Domestic Product (GDP), Gross Domestic Product per capita (GDP p.c.), Foreign Direct Investment (FDI), Unemployment rate and Inflation in Slovenia within its integration in the European Union. In order to better study the economic growth of Slovenia we analyzed several macroeconomic indicators such as the level of unemployment and risk of poverty. The implementation of comparison of chosen indicators with other countries as Czech Republic and Slovakia are given to get better overview of the issue.

Source data are drawn from the Statistical Database of the European Union (EUROSTAT), Statistical Office of the Republic of Slovenia, and other relevant world known organizations. Paper is providing a synthesis of
the available sources and for better illustration and clarity will be used rendering methods.

1. Research Results

1.1 Accession of the Republic of Slovenia to the EU

Communist countries of Central and Eastern Europe after the destruction of the Soviet Union showed interest for integration into the European Union in 1990, including Slovenia, as one of the most advanced countries in the former Yugoslavia. In 1989, before the collapse of socialist Yugoslavia, Slovenia adopted a political and economic program called: “Europe 1992” and began seriously to prepare for a new relationship with Europe.

Slovenia was one of the six member countries of the former Yugoslavia, after 10 days war¹, in December 1990 organized a referendum for independence², where 90% of its citizens voted for independence, actually for splitting from Yugoslavia. After independence, the countries of the European Economic Community in January 1992, adopted a resolution on the recognition of Slovenia as a sovereign state. In the same year joined the United Nations and established the parliament and government of the newly independent state.

After independence, Slovenia had huge privileges, including preferential access to the markets of the European Union, of the cooperation agreement in 1980 between the European Commission and Yugoslavia. The Cooperation Agreement between Slovenia and the EU was signed in April 1993.

The next step was to launch negotiations for an Association Agreement (or agreement for Europe, as it was that time called), but it was exposed to be difficult, largely because of the problems with neighboring Italy. Although Italy and most EU countries in January 1992 recognized the independence of Slovenia, it raised the issue of the status of the Italian minority in Slovenia and by that conditioned its EU membership.

Slovenia in early 1993 became a member of the international financial institutions, such as the International Monetary Fund and World Bank, as well as the Council of Europe. One of the requirements of the

EU countries, especially of Italy, was to change the law about allowing foreigners to buy land in Slovenia, which had to enter into force before signing the association agreement with the EU. This law postponed the signing of the association agreement with the EU until 10th June 1996, and entered into force on 1st February 1999.

Slovenia was the last of the 10 countries of Central Europe, on signing the association agreement and applying for membership in the European Union (on the same day when entered into force the association agreement also applied for EU membership). European Commission in autumn 1997, relating to the application of Slovenia's EU membership (until that time applied also nine other candidates from Central and Eastern Europe), gave opinion that Slovenia had stable democracy and fulfills the political and economic criteria for membership. It also stressed that Slovenia will have to make considerable efforts in adoption and implementation of the acquis, i.e. the third Copenhagen criterion, particularly in the areas of internal market, environment, employment, social affairs and energy.

In December 1997, the European Council in Luxembourg accepted the Commission's recommendation that negotiations should begin with six countries - the Czech Republic, Estonia, Hungary, Poland, Cyprus and Slovenia. Until the conclusion of the summit of the European Council in Helsinki at the end of 1999, negotiations began, also with Bulgaria, Latvia, Lithuania, Romania and Slovakia.

Slovenia was well prepared for negotiations. Between 1994 and 1996 it had prepared the major strategic documents, such as: “Strategy for Economic Development of Slovenia”, “The Strategy of International Economic Relations” and “Strategy for capacity enhancement of the competitiveness of Slovenian industry”.

The official negotiations between Slovenia and the European Union began on 31st March 1998, and the last phase of most intensive negotiations were held in November 2002 at the meeting of European Council in Copenhagen on 12 and 13 December 2002, when negotiations with all ten candidates were completed. The European Council on the same day confirmed that these ten countries will join the EU on 1th May 2004. After five years of negotiations on the accession of Slovenia to the European Union, they officially ended.

This was another convincing step for Slovenia on the way to its integration into a united Europe, which was listed as a strategic goal of Slovenia at the time when still belonged to the former common state - Yugoslavia.

On 16 April 2003, Slovenia and other accession countries signed the Accession Treaty in Athens. Slovenian Assembly ratified the agreement on 28th January 2004 and entered into force on the date of accession to the EU on 1st May 2004.

1.2 Integration of Slovenia into the EU, the opportunity for new integration

One of the main goals of EU membership is a full integration of the Member States to the common European monetary system. The completion of this integration is the adoption of the euro by all Member States. Slovenia and other countries that accessed the EU in May 2004, have agreed to prepare for the adoption of the euro during the negotiations.

Preparations of the introduction of the euro, essentially means leveling the economic conditions and living standards, as well as regular maintenance of sound public finances. Thus, before the adoption of the euro, while countries still use their own national currencies, they are required to maintain monetary stability and the stability of the balance of payments. Slovenia only during two years of membership in the EU met the Maastricht convergence criteria, the first in the group of new EU member countries.

With its entry into the EU on 1st May 2004, Slovenia has taken all the obligations of membership in the EU, of which one of them was the creation of appropriate Schengen regime and thus to allow its citizens to enter to other Schengen countries without border control, which is very important for opening the labor market. By joining Schengen area on 21 December 2007, together with eight new members’ states, Slovenia took a very responsible task - to protect the common external borders in accordance with Schengen standards.

1.3 Economic effects in foreign trade of Slovenia after joining the EU

Slovenia’s economy is highly dependent on foreign trade, especially with the EU states. After its accession to the EU, exports and imports of goods to GDP increased dramatically, reaching the highest value in 2014 (Eurostat, 2015). Export of goods were 72.9% of GDP, while imports 68.8 of GDP. For the 14 year period, the only year of decline was 2009 due to the global financial and economic crisis. Compared to 2000, in 2012 the share of exports in GDP rose by 29.6 percentage points, while the share of imports of goods to GDP increased by 18.7 percentage points.

Exports of goods of Slovenia in 2014 increased by 2.6 times comparing with the year period before accession to EU that is year 2000. The financial and economic crisis had a major impact on the level of exports of goods of Slovenia. In the last three years Slovenia’s foreign trade was in surplus, with the highest in 2014, 1.5 billion Euro.

Compared to 2000, exports of goods in 2010 actually increased in most EU Member States that joined the EU in 2004, mostly in Lithuania (598%), followed by Latvia (543%), Slovakia (495%) and Poland (415%).

Compared to 2000, real imports of goods in 2012, also mostly increased in EU Member States that joined the EU after 2004 and 2007, and that in Lithuania and Slovakia (441%), Latvia (387%), Romania (384%), Bulgaria (360%), and Czech Republic (316%). Real Imports of goods in Slovenia in 2012 rose by 125% compared to 2000.

Slovenia’s trade in 2014 was characterized by faster growth of exports than imports. Exports were 6.9% higher than in 2013, while imports were 2.4% higher than in 2013. Exports increased mainly due to the continued growth of exports to EU Member States, while the decrease in exports to EU non-member countries slowed down. As regards the main trading partners,


4 The total exports of the EU, covers total exports of member states of EU to countries outside the EU, and mutual trade between EU Member States in terms of the export side.

5 The total imports of the EU, covers total imports of member states of EU to countries outside the EU, and mutual trade between EU Member States in terms of the import side.

Source: EUROSTAT, 2015

Figure 1 International trade of Slovenia in GDP from 2000 to 2014 (in millions of euro) and in percentage of GDP

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exports to Croatia, Germany, Italy and Austria increased the most, while exports to France went up in the second half of the year. The largest increase was recorded in exports of goods from the product group motor cars, which are also the largest contributor to overall export growth over the previous year. The second largest share of total exports in 2014 was contributed by products from the group of medicaments (Statistical Office of RS, 2014).

1.4 Foreign direct investment, GDP and their structure in Slovenia

EU membership has two important implications in terms of Foreign Direct Investments (FDI). First, it allows countries with small domestic markets to expand their market and to attract European funds for investments (in agriculture, infrastructure). Second, membership suggests political, economical and legal stability, but the absence of effective institutions may delay the effective accumulation and transfer of knowledge (Radulescu & Druica, 2011).

The paper analyzes statistical data on FDI and Gross Domestic Product (GDP) in Slovenia from 2000 to 2012, as well as FDI as a percentage of GDP for the same period in order to see the impact of the accession of Slovenia in the EU towards FDI, which according to its development strategy were very important.

In 2000 the percentage of FDI in GDP of Slovenia was 0.67%, and after getting closer to EU membership, the percentage grew and reached 7.01% in 2002, as it can be seen in Figure 2. Accordingly to this trends, GDP per capita from 10,064.00 U.S. dollars in year 2000 increased to 22,346.00 U.S. dollars in 2012, the highest level achieved in 2008 of 27,033.00 U.S. dollars.

As it can be seen at the figure, after joining the EU, FDI in Slovenia grew rapidly by the end of 2008, when it reached to 1.9 billion U.S. dollars, and then fell in 2009, and grew in the last three years. One of the reasons for the growth of FDI in Slovenia is adoption of the euro, which helped easier and more efficient trade.

FDI in Slovenia had the highest increase in 2008, which compared to 2007 increased by more than 400 million U.S. dollars. As can be seen in the Figure 2, in 2007 drastically grew FDI outflows of Slovenia to other countries, which reached 1.8 billion U.S. dollars, and most were invested in the former republics of Yugoslavia, and on the other side most FDI inflows in Slovenia were from EU members, especially from Austria (45%) and Switzerland (11%). Austrians mainly invested in the sector of financial intermediation, and investors from Switzerland in manufacturing of chemicals and chemical products.

By the growth of FDI in Slovenia rapidly grew the real GDP, which unlike years before joining the EU it was 20 billion U.S. dollars in 2000 and in 2012 increased by more than double and reached 46 billion U.S. dollars.

1.5 Unemployment and structural employment in Slovenia

Unemployment from the beginning of the crisis until the end of 2008 was declining. The lowest percentage of unemployed persons registered in Slovenia was in 2008, 6.7 percent. From 2009 and onwards the unemployment constantly grew and reached 13 percent in 2014 (Statistical Office of RS, 2015).
1.6 Inflation in Slovenia

The rate of inflation in Slovenia before joining the EU it was very high. In recent years there have been dramatic changes in the rate of inflation, not only in Slovenia, but globally. In 2008, after the global financial crisis began, prices were climbing at an annual rate of about 5% and about 5.5% in Slovenia. But less than a year later, prices have increased by about 1% and 0.9% in Slovenia according to CPI measure.

What was staying behind those big changes of inflation? In mid-2008, the record high oil prices have lifted transport costs, the food, through growth in commodity prices in stores and higher household bills for energy.

Prices also depend on the economic cycle. That was shown in the second half of 2008, corresponding to the decline in economic activity. Furthermore, countries such as Slovenia, Cyprus, Malta and Slovakia, which have adopted the euro since 2002, on average are less developed than the countries that changed their currencies in the first round. This means that the process of real convergence is still in progress, and as a consequence we have higher inflation.

But, by early 2009, the price of crude oil declined, losing two thirds of its value in just six months. The global recession started, which means that demand for fuel declined for the needs of factories and transportation, both for goods and for workers.

According to the Eurostat data for the period 2000 - 2014, the highest rate of HICP was in 2000, 8.9 percent, compared to the same period, actually that was the highest inflation rate registered for the period 2000-2014, and the lowest rate of 0.4 per cent was registered in the last year, 2014.

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7 CPI – Consumer Price Index.

8 The HICPs (the Harmonized Index of Consumer Prices) are economic indicators constructed to measure the changes over time in the prices of consumer goods and services acquired by households. The HICPs give comparable measures of inflation in the euro-zone, the EU, the European Economic Area and for other countries including accession and candidate countries. They are calculated according to a harmonised approach and a single set of definitions. They provide the official measure of consumer price inflation in the euro-zone for the purposes of monetary policy in the euro area and assessing inflation convergence as required under the Maastricht criteria.
1.7 Level of income in Slovenia

For measurement of monetary poverty the European Council in December 2001, in Laeken, Brussels, established common European statistical indicators of poverty and social exclusion, known as the Laeken indicators, as a composite of 18 common European indicators.

Laeken most important indicators of poverty and social exclusion are:

1. Risk of poverty rate,
2. Risk of poverty line,
3. Quintile’s share of income (S80/S20),
4. Gini coefficient, and
5. Relative gap average exposure of risk of poverty.

The primary data source since 2003 is *European Union Statistics of Income and Living Conditions* (EU-SILC), which is based on the regulations and is funded by the European Commission. EU SILC is multi-dimensional tool, focused on revenue, but includes also housing, material poverty, labor, health, demography, education, in order to study the multi-dimensional approach of social exclusion.

EU SILC was launched at different times. Slovenia started to implement this program in 2005. It is implemented by living conditions survey (SILC Survey

The value of the quintile ratio in 2013 increased by 0.2 percentage point compared to 2012. This means that in 2013, 20% of the populations with the highest incomes are on average 3.6 times higher than the populations with the lowest income and in 2012 were 3.4 times higher.

Comparing to the one year before, in 2013 the value of the Gini coefficient increased to 24.4, i.e. the gap between rich and poor was 24.4%. This level of distribution of income is the highest of its analysis since 2005. Revenues were slightly better distributed among households in year 2009, 22.7%. Since the two indicators have almost the same values, we can conclude that in 2013 the income distribution among households remained at the similar level as in 2009 (Eurostat, 2015).
At the international level, according to the document OECD\textsuperscript{10} Slovenia was the most equal among OECD countries in 2014. The economic crisis which began in 2008, slightly increased income inequality, but still remains relatively low, which is mainly due to the increased redistribution of activities of the state, primarily through social transfers, which also increase consumption and as a consequence the public debt.

![Figure 7 Inequality of income distribution in Slovenia from 2005 to 2013](source: EUROSTAT, 2015)

The austerity measures adopted by the Slovenian government in order to reduce public debt severely are affecting the population, especially among those who are dependent on social security and other assistance and social rights, including pensions and other benefits for the elderly and persons with special needs, and also help to the workers (mostly in the public sector).

Because of the economic crisis, pensions were affected, i.e. the growth of pensions decreased in accordance with the amendment of the Law of intervention. In addition, recent legislative changes, the rights of pensioners still changed by reducing the additional fee and reducing those pensions that are not based on contributions.

Conclusion

One of the main goals for economic integration of the member states of the EU is common progress through the expansion of the European common market, by increasing competition in goods, services and factors of production, as well as long-term economic growth. The economic effects of integration of Slovenia in EU led to drastic growth of exports of goods and services from 2000 to 2014, with small decrease in 2009. FDI in Slovenia grew rapidly after joining the EU by the end of 2008, when it reached to 1.9 billion U.S. dollars, and then fell in 2009, and grew in the last three years. In Slovenia rapidly grew the real GDP, which unlike years before joining the EU it was 20 billion U.S. dollars in 2000 and in 2012 increased by more than double and reached 46 billion U.S. dollars. GDP per capita grew also by more than two times, from US$ 10,064 in 2000 to 22,346 US$ in 2012. The unemployment rate in Slovenia was higher than in the Czech Republic for the period from 2000 to 2014. Unemployment from the beginning of the crisis until the end of 2008 was declining. The lowest percentage of unemployed persons registered in Slovenia was in 2008, 6.7 percent. From 2009 and onwards the unemployment constantly grew and reached 13 percent in 2014.

The integration in EU, brought to decrease in unemployment rate, until 2008, reaching lowest rate 6.7%, and after that the country was affected by the global financial and economic crisis, therefore the number of unemployment was increasing every year.

The effect in economic sectors was that the number of employees in the agricultural sector has decreased very little and on the other side the number of employees in services was growing rapidly. The highest rate of HICP after EU membership reached in 2008, by around 5.5%.

Slovenia belongs to the group of countries with the least exposed persons at risk of poverty from the member countries of the Organization for Economic Cooperation and Development. Since the implementation of EU-SILC in 2005, it never reached 15% of its citizens at risk of poverty after social transfers with average incomes below 60% from the country’s average. Slovenia, similar to neighboring countries such as Czech Republic and Slovakia had relatively low concentration of income.

References


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