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**“Integration of Slovenia into EU and Global Industrial  
Networks: Review of Existing Evidence”**

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# INTEGRATION OF SLOVENIA INTO EU AND GLOBAL

## INDUSTRIAL NETWORKS:

### REVIEW OF EXISTING EVIDENCE

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#### **Abstract**

Slovenia is a small economy, which is somehow “condemned” to be open and highly internationalised. Relatively high shares of exports and imports in GDP indicate that the economy is highly dependent on foreign markets and inputs. This orientation is additionally strengthened by the final stage of the transition process and accession to the EU, both meaning definite opening of the economy and its integration into EU and global economy. Internationalisation of operations is, therefore, increasingly becoming a critical factor for creating and stimulating a competitive corporate sector in Slovenia. To strengthen the internationalisation processes, the policy of internationalisation should be based on the following: (i) lifting barriers to internationalisation; (ii) taking the actual needs of companies as a starting point; (iii) flexibility, transparency and the long-term perspective; (iv) adaptability and a re-examination of policy; and (v) a holistic concept of internationalisation. Increasingly important aspects of internationalisation are inward and outward FDI. The paper reviews the existing evidence on the internationalisation of Slovenian economy in all the various modes. The paper is composed of three parts. In the first part the scale and dynamics of industry integration of Slovenia into EU/global industrial networks by the way of foreign trade, outward and inward processing trade (OPT) and subcontracting and FDI is given. The second part analyses the integration of Slovenian car components industry in international industrial networks, and the third part concentrates on the motivation and strategies of foreign investors in Slovenia and Slovenian investors abroad.

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## INTRODUCTION

Slovenia is a small economy with population of approximately 2.0 million. With GDP per capita of USD 9,105 in 2000, or 72% of EU average in PPP terms, it is the most developed among transition countries of Central and Eastern Europe. After initial transitional recession, reflected in decreasing GDP growth rates, Slovenia succeeded quickly to considerably reduce inflation rate and already in 1993 to regain economic growth. GDP growth rates are expected to remain between 3.5%-4.5% in the near future, and inflation rate is expected to be reduced from 8.9% (annual average) in 2000 to 5.1% in 2003. In the whole transition period, Slovenia has kept more or less sustained fiscal and external balance. After reaching the peak of 9.1% in 1993, the rate of unemployment by ILO has been reduced to 7.0% in 2000 and is expected to be further reduced.

59.0% share of exports and 64% share of imports of goods and services in GDP (in 2000) demonstrate that the country has a distinctive outward oriented economy (IMAD 2001a). Internationalisation is increasingly in minds of firms and policy makers. The major underlying motive for internationalisation is to achieve international integration. Integration to EU/global economy can largely be achieved through corporate networking and foreign direct investment (FDI). Since the geographical pattern of capital formation, trade and technological spillovers across countries and regions and formation of economic centres, are to increasing extent determined by the strategies chosen by multinational enterprises (MNEs), they also determine developmental catch up and economic integration. Among all internationalisation modes FDI with its backward and forward linkages to home and host economies seem to remain the most efficient integration tool for non-integrated countries.

The aim of the paper is to review the existing evidence on the internationalisation of Slovenian economy in all the various modes. The paper is composed of three parts. In the first part the scale and dynamics of industry integration of Slovenia into EU/global industrial networks by the way of foreign trade, outward and inward processing trade (OPT) and subcontracting and FDI is given. The second part analyses the integration of Slovenian car components industry in international industrial networks, and the third part concentrates on the motivation and strategies of foreign investors in Slovenia and Slovenian investors abroad. The paper is based on three types of evidence on the internationalisation of Slovenian firms and economy as a whole: (i) available statistical data, (ii) results of existing research on the subject in Slovenia and abroad, and (iii) specifically on the permanent research efforts being undertaken in the Center of International Relations of the Faculty of Social Sciences, University of Ljubljana, in the respective field. The second and the third parts of the paper are to a major extent based on the latter.

# 1. SCALE AND DYNAMICS OF INDUSTRY INTEGRATION OF SLOVENIA INTO EU/GLOBAL INDUSTRIAL NETWORKS

## 1.1. Foreign trade

Traditional and the most widely used internationalisation mode of Slovenian companies is foreign trade. In 2000, exports accounted for almost 60% and imports for 64% of GDP. Since 1992, current account has been in a more or less constant but relatively low deficit. This has been due to a negative trade balance, while the balance in services has recorded constant yet diminishing surplus (see Table 1). In the whole period goods represent more than 80% of total foreign trade (82% in exports and 87% in imports since 1998). During the period 1994-2000 the share of services in foreign trade ranged between 13-18%.

**TABLE 1: Exports and imports; USD million**

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exports of goods	6,681	6,083	6,828	8,316	8,306	8,372	9,051	8,546	8,732
Exports of services	1,219	1,393	1,809	2,027	2,135	2,047	2,027	1,899	1,886
Imports of goods	6,141	6,501	7,304	9,492	9,397	9,358	10,111	10,083	10,116
Imports of services	1,039	1,017	1,166	1,449	1,501	1,417	1,535	1,535	1,449
<b>Exports total</b>	<b>7,900</b>	<b>7,476</b>	<b>8,637</b>	<b>10,343</b>	<b>10,441</b>	<b>10,419</b>	<b>11,078</b>	<b>10,445</b>	<b>10,618</b>
<b>Imports total</b>	<b>7,180</b>	<b>7,518</b>	<b>8,470</b>	<b>10,941</b>	<b>10,898</b>	<b>10,775</b>	<b>11,646</b>	<b>11,618</b>	<b>11,565</b>
Exports as % of GDP	63%	59%	60%	55%	55%	57%	57%	52%	59%
Imports as % of GDP	57%	59%	59%	58%	58%	59%	59%	58%	64%

Source: Statistical Office of the Republic of Slovenia.

An analysis of the external competitive position of Slovenian economy in the 1994-1999 period reveals that competitiveness did not experienced substantial changes<sup>1</sup>. Slovenia succeeds in keeping its market share in the EU almost unchanged in spite of real appreciation of the Slovenian Tolar (SIT). On the other hand, Slovenia has lost competitiveness in respect to CEFTA countries which increased their market share in EU by 60% (Strojan Kastelec 2001). The analysis also shows that exports depend mostly on foreign demand. Slovenian export commodity composition (see Table 3) in the studied period was quite stable and concentrated in those commodity groups that experienced less than average growth of demand abroad. Exports and foreign market shares increase is expected by direct presence and outward FDI.

Geographical structure of foreign trade reveals concentration on Europe (see Table 2), especially on neighbouring countries. According to 1999 data, exports of goods to EU, CEFTA and countries of former Yugoslavia represent 66.0%, 7.3% and 15.0% of total exports respectively. The most important export partners are Germany (30.7%), Italy (13.7%), Croatia (7.9%), Austria (7.3%), France (5.7%), Bosnia and Herzegovina (4.3%), USA (3.0%), Poland (2.2%), Macedonia (2.1%) and United Kingdom (2.0%). Exports to developed countries increased by 3 percentage points in the 1996-1999 period and reached 73.0% of total exports of goods in 1999. 27% was accounted by developing countries).

<sup>1</sup> Competitiveness is defined as the ability to sell products on international markets. Measure for estimating export performance of the economy is based on real exchange rate indices supplemented by changes of market shares abroad.

The geographical structure of imports of goods is very similar. 68,9% of imports come from EU, 8,4% from CEFTA and 17% from countries of the former Yugoslavia. Ten most important import partners of Slovenia are Germany (21.0% of imports in 1999), Italy (16.7%), France (11.0%), Austria (8.0%), Croatia (4.0%), United Kingdom (3.0%), USA (2.9%), Czech Republic (2.8%), Hungary (2.7%) and Spain (2.3%). 80% of imports of goods is from developed countries (an increase by 2 percentage points since 1996). Trade balance with developed countries is negative while trade balance with developing countries is in surplus.

**TABLE 2: Exports and imports of goods by groups of countries; USD million**

	Exports				Imports			
	1996	1997	1998	1999	1996	1997	1998	1999
<b>TOTAL</b>	<b>8,310</b>	<b>8,369</b>	<b>9,051</b>	<b>8,546</b>	<b>9,421</b>	<b>9,366</b>	<b>10,111</b>	<b>10,083</b>
<b>Developed countries</b>	5,842	5,796	6,453	6,199	7,325	7,206	8,098	8,044
EU	5,367	5,320	5,928	5,650	6,360	6,312	7,017	6,945
EFTA	83	87	98	112	249	194	208	239
Other developed countries <sup>1</sup>	392	390	426	436	716	699	873	859
<b>Developing countries</b>	2,462	2,568	2,592	2,343	2,095	2,160	2,013	2,037
Europe	2,262	2,333	2,329	2,137	1,597	1,587	1,578	1,627
CEFTA countries <sup>2</sup>	451	480	589	622	616	689	726	851
Countries on the territory of former Yugoslavia	1,385	1,387	1,397	1,296	709	594	593	572
Other European developing countries	427	467	344	219	272	305	260	204
Asia	118	134	145	108	268	309	244	266
Africa	45	58	69	66	119	152	99	76
America	36	42	49	32	110	111	92	69
Oceania	0	0	0	0	0	0	0	0
<b>Other n.e.c.</b>	6	4	6	4	1	1	0	1

*Source:* Statistical office of the Republic of Slovenia; *Notes:* 1/ Since 1998 export and import data for Republic of Korea have been included in data for other developed countries. Before 1998 they were included in data for developing countries of Asia; 2/ Since 1998 export and import data for Romania and since 1999 for Bulgaria have been included in data for CEFTA countries. Before 1998 for Romania and before 1999 for Bulgaria they were included in data for other European developing countries.

The structure of Slovenian manufacturing industry, the far most intensive foreign trade sector, is close to EU pattern both in terms of production and employment. The structure of foreign trade by end-use of products demonstrates strong involvement of Slovenian manufacturing industry in intra-industry trade. Intermediate goods are the most important holding 47% share of exports and 55% share of imports. Consumption goods representing 40% in exports and 26% in imports are followed by capital goods with 13% share in exports and 19% share in imports. The structure was very constant through the whole studied period (1996-1999). Intermediate and capital goods slightly increased their share in both imports and exports side (mostly due to increase in machinery and equipment), while consumption goods decreased their share.

The most important export products are: road vehicles (9.3% share in 1999 exports), seats (4.7%), medical products and pharmaceuticals (4.1%), furniture and parts thereof (2.4%), steel and steel products, parts and accessories of the motor vehicles (2.3%), refrigerators, freezers (1.8%), electric water heaters and others, paper and paperboard (1.3), and new pneumatic tyres (1.7%). Products most frequently imported are petroleum oils and oils from bituminous minerals, motor cars, steel and steel

products, parts and accessories of motor vehicles, pharmaceuticals, petroleum gases and other gaseous hydrocarbons, data-processing machines and units, aluminium, transmission apparatus for radio-telephony, motor vehicles for the transport of good. Though the importance of listed products has been changing slightly in the last years the group of the most traded products as a whole remain almost the same.

**TABLE 3: Exports and imports by end-use of products in 1996-99; USD million**

	Exports				Imports			
	1996	1997	1998	1999	1996	1997	1998	1999
<b>TOTAL</b>	<b>8,310</b>	<b>8,369</b>	<b>9,051</b>	<b>8,546</b>	<b>9,421</b>	<b>9,366</b>	<b>10,111</b>	<b>10,083</b>
<b>Intermediate goods</b>	3,745	3,810	4,105	4,016	5,398	5,460	5,775	5,549
Crude materials and semi-products	1,328	1,413	1,456	1,401	2,348	2,415	2,545	2,429
Mineral fuels	76	101	88	49	705	732	514	587
Manufactured goods for reproduction	2,341	2,297	2,561	2,566	2,345	2,313	2,715	2,533
<b>Capital goods</b>	1,001	1,060	1,169	1,079	1,520	1,508	1,806	1,940
Power generating machinery	14	12	13	12	71	53	65	108
Agricultural machinery	22	21	23	20	28	24	32	31
Metal working machinery	27	42	37	37	42	48	52	59
Other machinery	349	370	419	403	489	530	605	612
Electric motors and equipment	186	223	227	191	301	344	405	490
Transport equipment	49	46	90	58	208	153	275	242
Other capital goods	352	346	360	358	381	355	373	397
<b>Consumption goods</b>	3,564	3,499	3,777	3,451	2,503	2,398	2,530	2,593
Food	228	217	209	191	428	408	420	393
Beverages and tobacco	72	69	89	92	52	42	40	42
Clothing and footwear	696	643	624	540	537	507	506	455
Furniture	241	231	239	226	49	64	71	80
Textile articles (excl. clothing)	43	35	36	33	31	32	36	38
Medical and pharmaceutical products	419	455	458	442	212	223	256	262
Other consumer goods	1,865	1,849	2,122	1,927	1,193	1,121	1,201	1,323

Source: Statistical office of the Republic of Slovenia.

The structure of foreign trade by degree of processing is dominated by highly processed goods and was very stable in the 1996-1999 (see Table 4). The share of highly processed products in exports remained unchanged, while imports of highly processed products increased by 2 percentage points from 1996 to 1999. The shares of unprocessed and processed products remain very similar in exports and slightly (by 1 percentage point) decreased in imports.

**TABLE 4: Exports and imports of goods by degree of processing; in %**

	Exports				Imports			
	1996	1997	1998	1999	1996	1997	1998	1999
Unprocessed products	2	2	2	2	7	7	6	6
Processed products	13	14	14	13	21	22	20	20
Highly processed products	85	84	85	85	72	71	74	75
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Statistical office of the Republic of Slovenia.

In exports of services the most important were tourist (52% of services exports in 2000) and transport services (26%). Both keep constant share in the structure of export of services. The export of construction services decreased from 7% to 3% in the 1996-1999 period. More changes were evident in the imports of services. The

decrease in transport services from 37% to 24% in the studied period was accompanied by the increase of tourist services (from 33% to 36%), business services (from 10% to 14%) and construction services (0% to 4%).

## 1.2 Inward and outward processing transactions

Large share of intermediate goods in foreign trade suggests that outward and inward processing trade is important for Slovenia. Four categories of further processing transactions can be distinguished: exports after inward processing (so called active transactions), exports for outward processing (passive transactions), imports for inward processing and imports after outward processing.

For Slovenian foreign trade inward processing transactions are traditionally the most important, since lots of Slovenian manufacturing firms have gained experiences already from pre-transition period. In 1997, exports after inward processing in the manufacturing industry amounted to 94% of total exports for further processing. Imports for inward processing amount to 90% of total imports for further processing. EU is the most important region for these transactions (on average around 90%) in the 1992-1997 period. Strong inward processing transactions are developed especially with Germany that has had always intensive outward processing with several CEE countries<sup>2</sup>. According to the data available (Pellegrin 2001), the share of exports after inward processing in total exports was lower in Slovenia than in some other countries in transition (EU candidates) and was also lowering during the nineties.

Industries with growing shares in total OPT transactions are manufacturing of non metallic mineral products, manufacture of office machinery and computers and manufacturing of medical, precise and optical instruments. The highest but decreasing shares in total exports for further processing (active and passive transactions) were found in two traditional sectors, i.e. wearing apparel and textiles, where the share decreased from 63% to 54% in the 1992-1997 period. Other industries are much less important, though the importance of some of them is rising (basic metals and fabricated metal products, machinery and equipment, electrical machinery motor vehicles). Industries with the lowest and decreasing shares are food products and beverages, pulp, paper and paper products, motor vehicles and other transport equipment (Majcen 1998).

The exports after inward processing and for outward processing in 1997 amounted to 11% of total exports (inward processing 10.4%) and to 15.2% of exports to EU (see Table 5). The trend in the 1992-1997 period is evidently negative; in 1992 the share in total exports was 14.8% and in exports to EU 21.8%. Passive exports for outward processing is unimportant (0.3% in 1992, 0.7% in 1997). Inward and outward processing in total exports is high and stable in manufacturing of wearing and apparel (above 80% share) tanning and dressing of leather (around 20%) and manufacturing of fabricated metal products (around 9%). The importance of inward processing in total exports is decreasing in textiles (from 39% to 27% in the 1992-1997 period) and in some other sectors, like publishing, printing and reproduction of recorded media, basic metal, furniture, mostly due to increased labour costs or as a reflection of technological changes. The increasing importance of inward processing is observed in

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<sup>2</sup> In 1997, 60%-70% of OPT in CEE countries was undertaken by German firms (Pellegrin 2001).

manufacturing of wood and wood products, non-metallic mineral products, medical products and optical instruments. Manufacturing of office machinery and computers exhibits instability and many changes in the studied period.

**TABLE 5: Share of Slovenian inward and outward processing in total exports**

	TOTAL			CHANGE (%)		EU15		
	1992	1995	1997	97/92	95/92	1992	1995	1997
MANUFACTURING	0.148	0.123	0.111	-25.0	-16.9	0.218	0.161	0.152
15 Mfr of food products & beverages	0.031	0.031	0.043	38.7	0.0	0.034	0.025	0.063
16 Manufacture of tobacco products	0.298	0.005	0.016	-94.6	-98.3	0.96	0.009	0.004
17 Mfr. of textiles	0.394	0.315	0.274	-30.5	-20.1	0.518	0.359	0.315
18 Mfr. clothing apparel; dressing fur	0.834	0.835	0.814	-2.4	0.1	0.88	0.878	0.866
19 Leather tanning; mfr luggage etc.	0.217	0.23	0.208	-4.1	6.0	0.314	0.295	0.248
20 Mfr. of wood & wood, cork etc. goods	0.016	0.03	0.066	312.5	87.5	0.02	0.03	0.087
21 Mfr. pulp, paper products	0.035	0.004	0.013	-62.9	-88.6	0.06	0.003	0.008
22 Publishing, printing & record media	0.209	0.094	0.043	-79.4	-55.0	0.273	0.104	0.078
23 Mfr. coke, refined petroleum products, nuclear fuel	0	0.313	0.322	0.0	0	0	0.564	0.947
24 Mfr. chemicals & chemical products	0.075	0.022	0.01	-86.7	-70.7	0.241	0.056	0.028
25 Mfr. rubber and plastic products	0.025	0.031	0.036	44.0	24.0	0.035	0.041	0.61
26 Mfr. of other non metallic mineral products	0.02	0.066	0.056	180.0	230.0	0.009	0.095	0.076
27 Mfr. of basic metals	0.129	0.113	0.099	-23.3	-12.4	0.122	0.11	0.081
28 Mfr. fabricated metal, excl. machines	0.094	0.094	0.092	-2.1	0.0	0.134	0.128	0.131
29 Mfr. of machinery & equipment nec.	0.058	0.059	0.089	53.4	1.7	0.083	0.07	0.124
30 Mfr. of office machinery and equipment	0.051	0.421	0.06	17.6	725.5	0.065	0.603	0.094
31 Mfr. of electrical machinery etc. nec.	0.066	0.046	0.062	-6.1	-30.3	0.101	0.06	0.08
32 Mfr. Of radio, television and communication equipment	0.028	0.068	0.02	-28.6	142.9	0.073	0.141	0.049
33 Mfr. medical & precision instruments	0.031	0.063	0.05	61.3	103.2	0.019	0.076	0.076
34 Mfr. of motor vehicles, trailers etc.	0.032	0.04	0.025	-21.9	25.0	0.031	0.014	0.015
35 Mfr. of other transport equipment	0.067	0.046	0.098	46.3	-31.3	0.095	0.04	0.148
36 Mfr. of furniture	0.075	0.046	0.037	-50.7	-38.7	0.106	0.059	0.036

Source: Majcen 1998.

The imports for inward processing and the imports for outward processing in 1997 amounted to 6,9% of total imports (inward processing 6,2%) and 8,4% of imports from EU (see Table 5). This is a considerable decrease since 1992 where the shares were 11.3% in total imports and 13.3% in imports from EU. The importance of passive imports after outward processing was relatively high at the beginning of nineties, but very atypical and concentrated in the imports of refined petroleum products and nuclear fuels. After 1993 Slovenia almost stopped with this passive trade (first imports and then exports of crude oil for outward processing followed by the imports of refined petroleum products after outward processing) and the shares decreased to only 0.7% in 1997.

In general one can conclude that the overall involvement of Slovenian manufacturing industry in OPT, measured by turnover of outward and inward processing transactions in total foreign turnover has been declining (from about 15% to 9% in the 1992-97 period) (Majcen 1998). On the other hand shares of further processing trade balance in total trade balance in the studied period showed the increased values.



**TABLE 6: Share of Slovenian inward and outward processing in total imports**

	TOTAL			CHANGE (%)		EU15		
	1992	1995	1997	97/92	95/92	1992	1995	1997
MANUFACTURING	0.157	0.081	0.069	-56.1	-48.4	0.199	0.095	0.084
15 Mfr of food products & beverages	0.028	0.017	0.03	7.1	-39.3	0.037	0.01	0.016
16 Manufacture of tobacco products	0.453	0.023	0.027	-94.0	-94.9	0.843	0.109	0.117
17 Mfr. of textiles	0.28	0.147	0.178	-36.4	-47.5	0.347	0.15	0.199
18 Mfr. clothing apparel; dressing fur	0.849	0.766	0.686	-19.2	-9.8	0.957	0.844	0.786
19 Leather tanning; mfr luggage etc.	0.323	0.218	0.183	-43.3	-32.5	0.479	0.204	0.213
20 Mfr. of wood & wood, cork etc. goods	0.027	0.06	0.009	-66.7	122.2	0.053	0.01	0.012
21 Mfr. pulp, paper products	0.046	0.009	0.012	-73.9	-80.4	0.053	0.01	0.012
22 Publishing, printing & record media	0.146	0.024	0.027	-81.5	-83.6	0.222	0.012	0.021
23 Mfr. coke, refined petroleum products, nuclear fuel	0.473	0.022	0.021	-95.6	-95.3	0.405	0.058	0.067
24 Mfr. chemicals & chemical products	0.045	0.021	0.009	-80.0	-53.3	0.055	0.018	0.009
25 Mfr. rubber and plastic products	0.021	0.019	0.035	66.7	-9.5	0.027	0.015	0.039
26 Mfr. of other non metallic mineral products	0.108	0.04	0.016	-85.2	-63.0	0.183	0.031	0.013
27 Mfr. of basic metals	0.088	0.078	0.069	-21.6	-11.4	0.083	0.09	0.074
28 Mfr. fabricated metal, excl. machines	0.093	0.078	0.073	-21.5	-16.1	0.104	0.079	0.081
29 Mfr. of machinery & equipment nec.	0.04	0.028	0.059	47.5	-30.0	0.043	0.025	0.062
30 Mfr. of office machinery and equipment	0.003	0.018	0.005	66.7	500.0	0.004	0.049	0.009
31 Mfr. of electrical machinery etc. nec.	0.063	0.039	0.058	-7.9	-38.1	0.057	0.057	0.018
32 Mfr. Of radio, television and communication equipment	0.038	0.04	0.011	-71.1	5.3	0.057	0.057	0.018
33 Mfr. medical & precision instruments	0.019	0.036	0.031	63.2	89.5	0.007	0.045	0.042
34 Mfr. of motor vehicles, trailers etc.	0.036	0.022	0.017	-52.8	-38.9	0.04	0.01	0.014
35 Mfr. of other transport equipment	0.48	0.011	0.052	-89.2	-97.7	0.097	0.024	0.096
36 Mfr. of furniture	0.216	0.087	0.044	-79.6	-59.7	0.3	0.104	0.049

Source: Majcen 1998.

### 1.3. Foreign direct investment

Flows and stocks of inward FDI. FDI stock in Slovenia at the end of 2000 amounted to USD 2,808.5 million. Taking into account USD 199.8 million of FDI inflows in January-August 2001 the present stock of inward FDI in Slovenia stands at about USD 3 billion. Stock of inward FDI in Slovenia in the period 1993-2000 increased from USD 954.3 million to USD 2,808.5 million<sup>3</sup>, that is by 2.9 times. FDI inflows and stock were increasing rather fast all until the end of 1997. Afterwards, Slovenia experienced a slowdown in FDI inflows, which recovered only in 2001. First half of 2001 brought about an important positive change in FDI inflows in Slovenia; in January-August 2001 FDI inflows amounted to USD 199.8 million, compared to only USD 44.0 million in the same period of 2000. Higher inflows are predominantly the consequence of a couple of foreign acquisitions. Until the end of 2001 one can expect continuation of higher inflows of FDI in Slovenia. FDI projects already realised or announced for 2001 indicate FDI inflows in the approximate amount of USD 500 million what would be far the highest annual FDI inflow in Slovenia recorded so far.

<sup>3</sup> The decrease of stock by USD 109.3 million in 1999 is predominantly due to high appreciation of USD against Slovenian Tolar (SIT) in that year; in fact, the stock measured in EUR increased by EUR 317.8 million.

In the years to come, one can expect the same or even higher inflows of FDI. The major reason for that is the forthcoming privatisation of the state property, mostly in financial sector and public utilities. Motivation of the government to involve foreign investors in the forthcoming privatisation is strong and is related to strategic development as well as fiscal reasons. Expected participation of foreign investors in the privatisation, accompanied by the support of investment incentives policy, embodied in the government Program for the Promotion of FDI in 2001-2004 (TIPO 2001), would eventually have a positive influence on the perception of Slovenia as investment location and, consequently, also on the increase of FDI inflows in general.

**TABLE 7: Flows and stocks of inward and outward FDI<sup>1</sup> in Slovenia in 1993-2000<sup>2</sup>; USD million**

	1993	1994	1995	1996	1997	1998	1999	2000
<b>INWARD FDI</b>								
Year-end stock	954.3	1,325.9	1,763.4	1,998.1	2,207.3	2,765.8	2,656.5	2,808.5
Annual inflow <sup>3</sup>	112.6	128.1	177.4	194.0	375.2	247.9	181.2	175.5
<i>Stock as % of GDP</i>	7.5	9.2	9.4	10.6	12.1	14.1	13.2	15.5
<b>OUTWARD FDI</b>								
Year-end stock	280.6	354.0	489.9	459.5	459.4	608.3	605.0	794.0
Annual outflow <sup>4</sup>	-1.3	2.9	5.1	-6.3	-35.6	1.7	-37.5	-66.0
<i>Stock as % of GDP</i>	2.2	2.5	2.6	2.4	1.5	3.1	3.0	4.4

*Source:* Bank of Slovenia; *Notes:* 1/ FDI whereby a foreign investor holds a 10% or higher share in a company; 2/ From 1996 onwards direct investments with indirectly affiliated enterprises are also included; 3/ Inflows are in principle smaller than changes in stocks since international payments transactions comprise only part of the changes in stock; most notably, inflows data do not include changes in net liabilities to foreign investors. Furthermore, inflows do not include data on indirectly affiliated companies. From 1995 onwards data on reinvested earnings are also included in inflows and, thus, in the balance of payments; 4/ “-“ means outflow; n.a. = not available.

Flows and stocks of outward FDI. In 2000, Slovenia registered a record USD 66.0 million outflow of FDI. At the end of 2000 the stock of Slovenian outward FDI was USD 794 million. In the period January-August 2001, the outflows were USD 40.6 million, almost twice as much as USD 24.1 million in the same period of 2000. In 2000, stock of Slovenian outward investment increased by USD 189 million, what was more than the increase of inward FDI stock in the same year (USD 152 million). The increase was more due to increased equity and reinvested earnings (increase of USD 106.6 million) than to increased net claims to companies abroad (increase of USD 82.4 million). In fact, 2000 was the first year after 1994 that saw a considerable increase of equity and reinvested earnings. In 1994-1999, equity and reinvested earnings increased only by USD 17.2 million, while net claims to companies abroad in the same period increased by USD 233.7 million. These trends seem to indicate that Slovenian investors in the 1994-1999 period were mostly consolidating their existing investments abroad, while in 2000 and especially in 2001 a more vivid activity of establishing new FDI projects abroad, mostly related to the successor countries of the former Yugoslavia, is present.

Investing countries in Slovenia. Investors from EU countries dominate FDI in Slovenia. At year end 2000 no less than 84.0% of total inward FDI stock was accounted by EU countries, the major investors among them being Austria (45.6% of end 2000 inward FDI stock), Germany (12.5%) and France (10.7%), followed by Italy (5.4%), United Kingdom (3.6%) and Netherlands (3.0%). FDI from other EU countries lags behind. Of non-EU countries, only USA (3.9%), Czech Republic

(3.7%), Switzerland (3.6%) and Croatia (1.7%) are relevant investors. Share of EU countries in inward FDI stock in Slovenia in 1994-2000 increased heavily, i.e. from 62.0% to 84.0%. By far the highest increase, i.e. 23.2 percentage points, was made by Austrian investors. Proximity of Slovenia to the EU and traditionally strong economic co-operation of Slovenia with Austria, Germany, Italy and France are the major reasons for the domination of investors from these countries.

Host countries of Slovenian outward FDI. While inward FDI in Slovenia is getting particularly strong from Austria, Slovenia's outward FDI is as much concentrated on Croatia having 45.1% of Slovenia's end-2000 outward FDI stock. In addition to Croatia, countries that are increasingly attractive for Slovenian investors are Macedonia (8.3% of end-2000 outward FDI stock), Bosnia and Hercegovina (7.8%), Poland (7.0%) and Germany (8.9%). Obviously gradual increasing of outward investment of Slovenian firms is related mostly to the activity of Slovenian firms in the successor countries of the former Yugoslavia (64.5% of end-2000 outward FDI stock). Transition countries of Central and Eastern Europe (13.4%) and EU (15.8%) are much less represented as host countries. Slovenian firms are increasingly aware of the necessity of intensified internationalisation in which outward FDI is increasingly important method. Successor countries of the former Yugoslavia (proximity and familiarity with the environment, previous intensive business connections, knowing of languages) and, to a certain extent, transition countries represent a kind of logical first step in this direction (Svetličič, Rojec and Trtnik 2000).

Sectoral distribution of inward FDI. Manufacturing with 43.1% of total 2000 end year FDI stock is by far the most important recipient of FDI in Slovenia. Inside manufacturing, FDI is heavily concentrated in paper and paper products (6.4% of end 2000 stock), chemicals and chemical products (6.2%), machinery and equipment (5.2%), rubber and plastic products (5.0%), and motor vehicles and trailers (4.7%). Outside manufacturing, FDI is concentrated in trade (12.4%), financial services (25.4%) and other business services (12.0%). Industrial distribution of FDI is to a major extent determined by a handful of large (for Slovenian circumstances) FDI projects, which as a rule emerged out of previous co-operation between foreign investor and invested-in Slovenian company. FDI in Slovenia is heavily concentrated on a relatively small number of the largest FDI projects mostly with European MNEs. Foreign investors in Slovenia have been far more attracted by "attractiveness" of individual Slovenian companies (as target companies or joint venture partners), that is by their specific individual characteristics, than by "attractiveness" of individual industries as such (Rojec 1998).

In the manufacturing industry the major investments are the investment of Renault from France in car manufacturing (Revoz), Meyr Melnhof (Količevo karton) and Brigl & Bergmeister (Papirnica Vevče) both from Austria in paper, IPB from Czech Republic also in paper (VIPAP Videm Krško), E.G.O. from Switzerland in electro-thermic apparatus (ETA Cerčno), Siemens from Germany in telecommunications equipment (Iskratel), Kirkwood Industries from USA in commutators (Kolektor), Danfoss from Denmark in compressors for refrigerators (Danfoss Compressors) and in heating and ventilation control systems (Danfoss Trata), Bosch-Siemens from Germany in small household appliances (BSH Hišni aparati), Reemtsma from Germany and Seita from France in cigarette (Tobačna Ljubljana), Pfeleiderer from Germany in insulation materials (Pfeleiderer Novoterm), Henkel from Austria in

detergents and cosmetics (Henkel-Zlatorog) and in chemical industry (Henkel Ecolab), Goodyear from USA in car tires (Sava Tires, Goodyear Engineered Products), Gruppo Bonazzi from Italy in synthetic fibers (Yulon) and textiles (Aquasava), Hella from Germany in car lightning equipment (Saturnus Avtooprema), Messer Griesheim from Germany in industrial gases (Messer Slovenija), Safilo Group from Italy in spectacles frames (Carrera Optyl), Bayer from Germany in pharmaceuticals (Bayer Pharma), Inexa from Sweden in steel, Johnson Controls from Germany in automotive components manufacturing (NTU Johnson Controls) etc. In trade, major FDI projects are Interspar from Austria, Porsche from Germany and Leclerc from France, in banking there are Bank Austria Creditanstalt and Volksbank from Austria and Societe Generale from France, while in telecommunications there are Mobilkom from Austria and Western Wireless from USA.

Sectoral distribution of outward FDI. As much as 54.4% of Slovenia's end-2000 outward FDI stock is accounted by manufacturing, 12.7 percentage points more than in 1994. This indicates the increasing necessity and ability of Slovenian manufacturing enterprises to internationalise (Svetličič and Jaklič 2001). Industries that account for the main part of Slovenia's manufacturing outward FDI are chemicals and chemical products (mostly pharmaceuticals) with 15.4% of end 2000 outward FDI stock, machinery and equipment (10.2%), food products and beverages (8.0%), and fabricated metal products (5.9%). Outside manufacturing Slovenian investors are the most active in financial services (11.9%), retail trade (7.8%) and other business services (5.9%). Though an increasing number of Slovenian companies invest abroad key investors abroad remain the same. These are, as a rule, the most successful Slovenian companies. The major outward FDI manufacturing industries, as a rule, started internationalisation through exports. The industries that were the first to enter the internationalisation process using exports were also the first in using more complex modes of doing business abroad. These industries were also more penetrated by inward internationalisation, especially as regards subcontracting, licensing, contract manufacturing, partial projecting. According to the stock of outward FDI by industries, the same industries remained the most important in the whole period of the 1990s.

Relevance of inward FDI for the Slovenian economy. In the 1993-2000 period the share of inward FDI stock in Slovenian GDP increased from 7.5% to 15.5%. This is relatively low if compared to some other transition countries<sup>4</sup>. A more detailed insight into the importance of foreign investment enterprises (FIEs; enterprises with 10% or higher foreign equity share) for Slovenian economy confirms, on the one hand, the above conclusion about relatively low importance of FDI in the Slovenian non-financial corporate sector. On the other hand, however, in some aspects, FIEs seem to be quite important. At the end of 1999, FIEs accounted for only 3.8% of total population of enterprises in Slovenian non-financial corporate sector and had 11.4% of total equity, 12.1% of total assets and 8.8% of all employees of this sector. With this equity, assets and employees, FIEs realised 15.0% of total net sales, 19.7% of total operating profit and 11.6% of total operating loss. FIEs stand out the most in exports, realising as much as 26.1% of total exports of the Slovenian non-financial corporate sector. It is, therefore, safe to conclude that FIEs already represent a relatively important category of Slovenian enterprise sector, especially as far as

<sup>4</sup> In 2000, the share of inward FDI stock in GDP was 43.3% in Hungary, 40.4% in the Czech Republic, 20.1% in Poland and 19.3% in the Slovak Republic (Hunya & Stankovsky 2001).

exports are concerned, as well as profits and sales. This is especially true for the manufacturing, where most of FIEs are located. At the end of 1999, FIEs accounted for 20.7% of total assets, 21.8% of total equity, 23.3% of total sales, 28.0% of total profit and as much as 30.3% of total exports of Slovenian manufacturing sector.

The importance of FIEs in the non-financial corporate sector increased considerably in the 1994-1999 period. This is demonstrated in all individual items, most of all in exports and equity. It is also clear that the importance of FIEs in the manufacturing sector is higher than in other sectors, and that it has been increasing faster in the manufacturing than in other sectors. In 1995-99 the importance of FIEs (measured as a share of FIEs' assets in total assets of an industry) increased much more in the manufacturing sector (from 12.5% to 20.7%) than in total (from 8.2% to 12.1%). There was not a single manufacturing industry in which the share of FIEs would not increase in the 1995-1999 period. The increases were the most outstanding in motor vehicles, other non-metal mineral products, rubber and plastic products, basic metals, and in paper and paper products. Outside manufacturing the increase was the highest in financial intermediation, real estate business, other business activities, supporting and auxiliary transport activities, and in wholesale trade. At the end of 1999, foreign penetration - measured by the share of FIEs' assets in total assets of an industry - was the highest in tobacco products (100%)<sup>5</sup>, paper and paper products (59.9%), motor vehicles and trailers (56.5%), radio, television and equipment (53.5%), financial intermediation (34.5%), other non-metal mineral products (31.6%), rubber and plastic products (27.0%), machinery and equipment (23.8%), sale and repair of motor vehicles and fuel, and in electrical machinery and apparatus (21.7%).

Relevance of outward FDI for the Slovenian economy. In the 1993-2000 period the share of outward FDI stock in Slovenian GDP increased from 2.2% to 4.4%. In 1998, companies investing abroad represented only about 1% of total number of companies in Slovenian non-financial corporate sector, but they employed 27% of all employees, and realised 25% of total sales, 30% of total value added and as much as 37% of total exports of the non-financial corporate sector. In the 1994-1998 period these figures increased (Jaklič 2001). International integration through outward FDI has therefore significantly influenced domestic economic performance and includes significant part of domestic economy.

## **2. INTEGRATION OF SLOVENIAN CAR COMPONENTS INDUSTRY IN EU/GLOBAL INDUSTRIAL NETWORKS<sup>6</sup>**

The analysis of integration of Slovenian car components industry in EU/global industrial networks is based on the questionnaire survey of the major car component manufacturers in Slovenia. The questionnaires were sent to 39 companies that are members of the Slovenian Automotive Component Manufacturers Association; 26 of them replied. 14 of the respondents are in domestic ownership (domestic enterprises), 3 in foreign ownership (wholly foreign owned enterprises) and 9 in mixed ownership (mixed enterprises). 7 companies - 2 in foreign and 5 in mixed ownership - responded

<sup>5</sup> Which is a specific case because the only cigarette-manufacturing factory in Slovenia is in foreign ownership.

<sup>6</sup> This part is based on Rojec 2000a.

that they are part of a MNE. These MNEs are headquartered in Germany (3), UK (2) and USA (2).

With 7.0% share in assets, 5.8% in number of employees, 6.5% in sales, 7.8% in net operating profit and 9.6% in exports, members of Slovenian Automotive Component Manufacturers Association represent quite an important part of Slovenian manufacturing sector. Of that, FIEs are responsible for something more than one quarter, except in net operating profit where they account for no less than 72.9% of all the members of the Association (see Table 8). The reason for very high share of FIEs in net operating profit is that a number of DEs registered operating losses while there were no such cases among FIEs.

**TABLE 8: Selected income statements/balance sheet items of 37 enterprises members of the “Slovenian automotive component manufacturers association”, 1998; in SIT million and %**

	All enterprises			FIEs <sup>1</sup>			DEs <sup>2</sup>		
	Value	Share in Mnftg	Share in All	Value	Share in Mnftg.	Share in All	Value	Share in Mnftg.	Share in All
No. of companies	37	0.6	100.0	11	3.4	29.7	26	0.4	70.3
Assets	169,838	7.0	100.0	33,209	6.8	19.6	136,629	7.1	80.4
Equity	64,383	4.9	100.0	17,420	6.2	27.1	46,963	4.6	72.9
No. of employees	12,215	5.8	100.0	3,467	12.6	28.4	8,748	4.8	71.6
Sales	157,329	6.5	100.0	39,986	6.8	25.4	117,343	6.5	74.6
Exports	123,402	9.6	100.0	33,947	8.0	27.5	89,455	10.4	72.5
Value added	43,288	6.5	100.0	12,228	10.4	28.2	31,060	5.7	71.8
Net operating profit <sup>3</sup>	2,920	7.8	100.0	2,128	16.0	72.9	792	3.3	27.1

*Source:* Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data; *Notes:* 1/ FIEs = Foreign investment enterprises, i.e. enterprises with 10% or higher foreign equity share; 2/ DEs = domestic enterprises; enterprises with less than 10% foreign equity share; 3/ net operating profit = operating profit – operating loss; n.s. = calculation not sensible because the denominator is negative or zero; End of period exchange rate: 1 USD = 161.2011 SIT; Average annual exchange rate: 1 USD = 166.1346 SIT.

Members of the Association do not only represent a relevant part of Slovenian manufacturing sector, but also perform much better than manufacturing enterprises on average. They have higher return on equity and higher value added per employee. As far as operating indicators is concerned, association members are more than ten times larger than average manufacturing enterprise, they are also more capital intensive and much more export oriented. Comparing FIEs and DEs (domestic enterprises, i.e. enterprises with less than 10% foreign equity share), it is interesting that the former are considerably smaller and more capital intensive than the latter, On the other hand, FIEs in the Association seem to have some advantages which are characteristic for FIEs in Slovenia in general; i.e. FIEs have higher share of machinery and equipment in fixed assets, they are more export oriented and, especially, they invest much more than DEs in terms of investment outlays to assets ratio.

In 1998, members of the Association were responsible for 8.8% of Slovenian manufacturing exports and 7.6% of imports. Their trade balance is better than on average in manufacturing; exports to imports ratio is 172.6% for the members of Association and 147.7% for manufacturing as a whole. Among members of the Association DEs have higher (177.7%) exports to imports ratio than FIEs (160.5%).

**TABLE 9: Selected performance and operating indicators of 37 enterprises members of the “Slovenian automotive component manufacturers association”, 1998 income statements/balance sheet data**

Indicator	All enterprises	FIEs <sup>1</sup>	DEs <sup>2</sup>	FIEs/Des (%)
<b>Net operating profit per equity (%)</b>				
D Manufacturing total	2,9	4.7	2.3	204
Association members	4.5	12.2	1.7	718
<b>Value added<sup>3</sup> per employee (mill. SIT)</b>				
D Manufacturing total	3.1	4.3	3.0	143
Association members	3.5	3.5	3.6	97
<b>Assets per company (mill. SIT)</b>				
D Manufacturing	387.3	1,501.3	326.6	460
Association members	4,590.2	3,019.0	5,255.0	57
<b>No. of employees per company</b>				
D Manufacturing	33.9	85.5	31.0	276
Association members	330.1	315.2	336.5	94
<b>Assets per employee (mill. SIT)</b>				
D Manufacturing	11.4	17.6	10.5	168
Association members	13.9	9.6	15.6	62
<b>Machinery as a share of fixed assets<sup>4</sup> (%)</b>				
D Manufacturing	39.5	52.1	36.3	1,44
Association members	31.9	47.9	26.0	184
<b>Investment in fixed assets<sup>5</sup> per assets (%)</b>				
D Manufacturing	n.a.	n.a.	n.a.	n.a.
Association members	6.8	17.7	4.2	421
<b>Exports as a share of sales (%)</b>				
D Manufacturing	53.6	72.3	47.5	152
Association members	78.4	84.9	76.2	111

*Source:* Institute of Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data; *Notes:* 1/ Enterprises with 10% or higher foreign equity share; 2/ Enterprises with less than 10% foreign equity share; 3/ Value added = sales - costs of merchandise, material and services; 4/ Fixed assets without long-term financial investment and equity correction; 5/ Investment outlays = fixed assets in 1998 – fixed assets in 1997 + depreciation; n.s. = calculation not sensible because the denominator is negative or zero; End of period exchange rate: 1 USD = 161.2011 SIT; Average annual exchange rate: 1 USD = 166.1346 SIT.

**TABLE 10: Export-import flows of 37 enterprises members of the “Slovenian automotive component manufacturers association”; 1998 foreign trade statistics; SIT million**

	Exports	Imports	Balance	Exports/Imports ratio (%)
<b>All enterprises</b>	115,409	66,868	48,541	172.6
<b>Foreign enterprises</b>	31,901	19,877	12,024	160,5
<b>Domestic enterprises</b>	83,508	46,991	36,517	177.7

*Source:* Institute of Macroeconomic Analysis and Development; based on foreign trade statistics; *Notes:* Average annual exchange rate: 1 USD = 166.1346 SIT.

Product and sales. 26 interviewed companies produce a wide variety of car parts and components. Half of the companies considers their products being of very high complexity, 6 (23.1%) of high complexity, 5 (19.2%) of medium complexity, only 1 (3.8%) of very low complexity and none of low complexity (see Table 11). The interviewees seem to have quite high opinion of the complexity of their products<sup>7</sup>.

<sup>7</sup> No exact definition of product complexity was given the interviewees. They were just asked to give their own view on the subject.

Due to rather small number of companies in individual ownership categories (14 in domestic, 3 in foreign and 9 in mixed) it is not possible to make any conclusions on complexity of product and type of ownership. Nevertheless, all 3 foreign companies produce products of very high complexity, while mixed companies are concentrated first on products of high complexity and only then on products of very high complexity. In domestic companies, products of very high complexity are also the most frequent, but are followed by medium complexity products (see Table 11). Of 7 companies that are parts of MNEs, 3 produce high complexity products and 4 very high complexity products.

**TABLE 11: Nature of product and type of ownership**

	Domestic			Foreign			Mixed			TOTAL		
	No.	%	%	No.	%	%	No.	%	%	No.	%	%
<b>1. Very low complexity</b>	1	7.1	100	0	0.0	100	0	0.0	100	1	3.8	100
<b>2. Low complexity</b>	0	0.0	-	0	0.0	-	0	0.0	-	0	0.0	-
<b>3. Medium complexity</b>	4	28.6	80.0	0	0.0	0.0	1	11.1	20.0	5	19.2	100
<b>4. High complexity</b>	2	14.3	33.3	0	0.0	0.0	4	44.4	66.6	6	23.1	100
<b>5. Very high complexity</b>	6	42.9	46.2	3	100	23.1	4	44.4	30.8	13	50.0	100
<b>Complexity not defined</b>	1	7.1	100	0	0.0	0.0	0	0.0	0.0	1	3.8	100
<b>TOTAL</b>	14	100	53.8	3	100	11.5	9	100	34.6	26	100	100

Source: Survey.

Tables 12 to 14 describe the sales profile of interviewed companies. EU is by far the most important market, not only in general, but also for all the three individual relevant complexity categories of products, i.e. for medium, high and very high complexity products. With much lesser importance EU market is followed by domestic market, and other markets (like CEE & CIS countries, other OECD countries and the rest of the world) which seem to be of relatively low relevance (see Table 12). Combining individual market importance by type of ownership does not suggest any specificities. For all the ownership categories of companies, EU is the far most important market, followed by domestic market. The only exceptions are foreign companies, for which “rest of the world” is more important than domestic market (see Table 13). Generally relatively modest importance of domestic compared to foreign, in fact EU, market is further confirmed in Table 14, which shows that interviewed companies on average export more than 80% of their production. Exports shares for medium, high and very high complexity products are rather similar, the highest (93.2%), nevertheless being in the case of high complexity products. Comparing exports shares for different ownership categories of companies, it seems that foreign companies might be more export oriented than mixed and domestic companies. Small number of cases, however, does not allow any kind of more reliable conclusion.

**TABLE 12: Market importance by nature of product;  
average scores (1=very important, 5=unimportant)**

	Domestic	CEEC&CIS	EU	Other OECD	Rest of world
<b>1. Very low complexity</b>	1.00	2.00	5.00	5.00	5.00
<b>2. Low complexity</b>	-	-	-	-	-
<b>3. Medium complexity</b>	3,20	3.40	1.20	3.00	3.80
<b>4. High complexity</b>	4,17	3.83	1.17	3.5	3.83
<b>5. Very high complexity</b>	3,31	3.92	1.31	4.38	3.62
<b>Complexity not defined</b>	1.00	3.00	2.00	5.00	5.00
<b>AVERAGE</b>	3,31	3.69	1.42	3.96	3.81

Source: Survey.



**TABLE 13: Market importance by type of ownership;  
average scores (1=very important, 5=unimportant)**

	Domestic	Foreign	Mixed	AVERAGE
<b>Domestic</b>	3.21	3.67	3.33	3.31
<b>CEEC&amp;CIS</b>	3.50	4.33	3.78	3.69
<b>EU</b>	1.57	1.33	1.22	1.42
<b>Other OECD</b>	4.14	5.0	3.33	3.96
<b>Rest of world</b>	3.57	3.33	4.33	3.81

Source: Survey

**TABLE 14: Average exports share by nature of product and type of ownership**

	Export share (%)
<b>Nature of product</b>	
1. Very low complexity	13.0
2. Low complexity	-
3. Medium complexity	81.4
4. High complexity	93.2
5. Very high complexity	82.8
Complexity not defined	40.0
<b>Type of ownership</b>	
Domestic	78.7
Foreign	94.3
Mixed	78.9
<b>AVERAGE</b>	80.6

Source: Survey.

Suppliers and customers. The interviewed companies source a wide variety of raw material, reproduction material and parts. The companies usually source from both foreign and domestic suppliers (18 out of 26 cases) or only from foreign suppliers (8 out of 26 cases). There is not a single case in which a company would source only from domestic suppliers. Table 15 does not show any relevant differences as far as suppliers are concerned according to the type of company ownership and company being or not a member of a MNE.

**TABLE 15: Suppliers of companies by type of ownership and MNE participation; %**

	Domestic suppliers		Foreign suppliers		Both	
	Number	Share	Number	Share	Number	Share
<b>Type of ownership</b>						
Domestic	0	0.0	4	28.6	10	71.4
Foreign	0	0.0	1	33.3	2	66.7
Mixed	0	0.0	3	33.3	6	66.7
<b>MNE participation</b>						
Part of MNE	0	0.0	3	42.9	4	57.1
Non-part of MNE	0	0.0	5	26.3	14	73.7
<b>AVERAGE</b>	0	0.0	8	30.8	18	69.2

Source: Survey.

Strength of relationships between suppliers and buyers is assessed rather high, i.e. on average with 3.78 on a scale between 1 as very weak and 5 as very strong. It seems that relationships are stronger in the case of high complexity products (higher than in the case of very high complexity products), in the case of mixed companies and in the case where companies are a part of a MNE (see Table 16). There is no obvious explanation for this, except may be in the case of companies being a part of a MNE,

where one would expect higher integration of highly export oriented subsidiaries (what the interviewed companies as a rule are) in a foreign parent company's network. On the other hand, Table 17 does not show literary any difference in the strength of suppliers - buyers relationships according to the type of supplier, i.e. foreign versus both domestic and foreign suppliers.

**TABLE 16: Relationships between suppliers and buyers by nature of product, type of ownership and MNE participation; average scores (1=very weak relationships, 5= very strong relationships)**

	Relationships between suppliers and buyers
<b>Nature of product</b>	
1. Very low complexity	n.a. <sup>1</sup>
2. Low complexity	-
3. Medium complexity	3.00 <sup>1</sup>
4. High complexity	4.33
5. Very high complexity	3.78 <sup>1</sup>
Complexity not defined	3.50
<b>Type of ownership</b>	
Domestic	3.55 <sup>1</sup>
Foreign	3.00 <sup>1</sup>
Mixed	4.11
<b>MNE participation</b>	
Part of MNE	4.20 <sup>1</sup>
Non-part of MNE	3.63 <sup>1</sup>
<b>AVERAGE</b>	3.78 <sup>1</sup>

Source: Survey; Notes: 1/ Not all interviewees in this category answer the question.

**TABLE 17: Relationships between suppliers and buyers by type of suppliers; average scores (1= very weak relationships, 5= very strong relationships)**

Type of suppliers	Relationships between suppliers and buyers
Domestic	-
Foreign	3.8
Both	3.77 <sup>1</sup>
<b>AVERAGE</b>	3.78 <sup>1</sup>

Source: Survey; Notes: 1/ Not all interviewees in this category answer the question.

Far the most frequent buyers of Slovenian automotive components manufacturers are final assemblers (in 80.8% of cases), followed by other suppliers (23.1% and retailers (15.4%). In as much as 84.6% of cases MNEs are among the customers of the interviewed companies. These MNEs are coming from Germany (15 cases), France (9), USA (8), UK (4), Italy (2), and also from other countries (mentioned only once) like Slovenia, Austria, Switzerland, CIS, Czech Republic, Romania, EU, Hong Kong. Table 18 hardly offers any conclusions as far as differences in type of buyers according to the level of product complexity, type of company ownership and company being or not a part of a MNE. Nevertheless, it seems that final assemblers are relatively more frequent buyers in the case of domestic than in the case of foreign and mixed companies. The same might be the case for companies being a part of MNE versus those not being a part of MNE.

**TABLE 18: Buyers of companies by nature of product, type of ownership and MNE participation; %**

Nature of product	Type of buyer <sup>1</sup>						MNE buyers	
	Other suppliers		Final assemblers		Retailers			
	Number	Share	Number	Share	Number	Share	Number	Share
1. Very low complexity	0	0.0	0	0.0	1	100.0	1	100.0
2. Low complexity	-	-	-	-	-	-	-	-
3. Medium complexity	2	40.0	5	100.0	1	20.0	5	100.0
4. High complexity	1	16.7	4	66.7	1	16.7	4	66.7
5. Very high complexity	3	23.1	11	84.6	1	7.7	11	84.6
Complexity not defined	0	0.0	1	100.0	0	0.0	1	100.0
<b>Type of ownership</b>								
Domestic	3	21.4	13	92.9	3	21.4	14	100.0
Foreign	1	33.3	2	66.7	0	0.0	3	100.0
Mixed	2	22.2	6	66.7	1	11.1	5	55.6
<b>MNE participation</b>								
Part of MNE	1	14.3	6	85.7	0	0.0	5	71.4
Non-part of MNE	5	26.3	15	78.9	4	21.1	17	89.5
<b>AVERAGE</b>	6	23.1	21	80.8	4	15.4	22	84.6

*Source:* Survey; *Notes:* 1/ Sum of shares is not 100% in all rows because some of the interviewees indicated that they have more than one type of buyer.

R&D and technology transfer. Table 19 deals with R&D, transfer of technology and the importance of this transfer. The vast majority (88.5%) of the interviewed companies undertake some R&D. The frequency of R&D does not seem to depend on the product complexity; 100.0% of companies with medium complexity products, 83.3% with high complexity products and 92.3% with very high complexity products undertake R&D. On the other hand, foreign companies and companies which are part of MNEs have lower frequency of R&D than mixed and domestic companies and companies which are not part of MNEs. Companies which are part of MNEs receive technology almost exclusively from their foreign parent companies, while other companies must rely much more on other channels of technology transfer and own R&D. The scope of this R&D is, however, frequently relatively limited.

In the questionnaire we concentrate on two streams of technology transfer, i.e. on technology transfer from interviewed companies to their suppliers and on technology transfer from buyers to the interviewed companies. The first characteristic of these transfers is that transfers to suppliers are much more frequent (73.1% of cases) than transfers from buyers (57.7% of cases). In relation to the level of product complexity, the most outstanding feature is that transfers in both directions in very high complexity products are much less frequent than in other levels of product complexity. This conforms with general knowledge of the issue, saying that transfer of technology happens not at the technology frontier but somewhere below that. For as long as it is on the edge, firms keep their knowledge to themselves. For the firms on the receiving end that means that they do not get disembodied technology but ready products. In relation to the type of ownership, if one compares firms with foreign participation (wholly foreign and mixed ownership) to those without, it seems that technology transfers in both directions are relatively more frequent in the case of companies with foreign equity participation. Also, transfers are much more frequent in companies that are part of MNEs than in companies that are not part of MNEs.

Companies have been also asked to assess the importance of technology transfer for upgrading of what they make and how they make. In general, companies attach quite high importance to the technology transfer in the above sense (overall estimate was

3.46 on the scale from 1 for very low importance to 5 for very high importance of technology transfer), however, one could hardly find a correlation between the frequency of technology transfer and the level of importance attached to the transfer. Thus, frequency does not mean at the same time that technology transfer is important. This seems to be influenced by the fact that own R&D is important for the interviewed domestic companies.

If one would try to establish if there is any pattern between the frequency of R&D and frequency of technology transfer, he would generally find one. Most categories with high frequency of R&D also have high frequency of technology transfer in both directions. Foreign companies, which demonstrate the lowest frequency of R&D also demonstrate the lowest frequency of technology transfer in both directions. The picture is not consistent in two cases; (i) in very high complexity products the frequency of R&D is no lower than at other levels of product complexity, but the frequency of technology transfer is much lower than at any other level of product complexity; (ii) companies not being part of MNEs show much higher frequency of R&D undertaken than companies being part of MNEs, but at the same time have much less frequent technology transfer than the latter.

**TABLE 19: R&D and transfer of technology by nature of product, type of ownership and MNE participation**

	R&D undertaken		Technology transfer to suppliers		Technology transfer from buyers		Importance of technology transfer <sup>1</sup>
	Number	Share	Number	Share	Number	Share	
<b>Nature of product</b>							
1. Very low complexity	0	0.0	0	0.0	0	0.0	1.00
2. Low complexity	-	-	-	-	-	-	-
3. Medium complexity	5	100.0	4	80.0	4	80.0	3.00
4. High complexity	5	83.3	6	100.0	5	83.3	4.00
5. Very high complexity	12	92.3	8	61.5	6	46.2	3.55
Complexity not defined	1	100.0	1	100.0	1	100.0	4.00
<b>Type of ownership</b>							
Domestic	13	92.9	9	64.3	7	50.0	3.00
Foreign	2	66.7	1	33.3	0	0.0	3.00
Mixed	8	88.9	9	100.0	8	88.9	4.22
<b>MNE participation</b>							
Part of MNE	5	71.4	6	85.7	6	85.7	4.14
Not-part of MNE	18	94.7	13	68.4	9	47.4	3.18
<b>TOTAL</b>	<b>23</b>	<b>88.5</b>	<b>19</b>	<b>73.1</b>	<b>15</b>	<b>57.7</b>	<b>3.46</b>

Source: Survey; Notes: 1/ 1=very low importance, 5=very high importance of technology transfer for upgrading of what and how the companies make.

Is there any link between frequency of technology transfer to suppliers and type of suppliers, and is there any link between frequency of technology transfer from buyers and type of buyers. Tables 20 and 21 suggest that there might be some differences among suppliers and buyers as far as the frequency of technology transfer is concerned. Technology transfer to suppliers is relatively much more frequent in the case of both foreign and domestic suppliers (83.3% of cases) than in the case of foreign suppliers (50% of cases). Capabilities and competencies of suppliers, and strength of relationships between suppliers and buyers do not seem to have much influence on whether the technology transfer to suppliers will occur or not (see Table 20).

**TABLE 20: Technology transfer to suppliers by type of supplier, suppliers' capabilities, relationships between suppliers and buyers and suppliers' restraints; %**

	Tech. transfer to suppliers		No tech. Transfer to suppliers	
	Number	Share	Number	Share
<b>Type of suppliers</b>				
Domestic	0	0.0	0	0.0
Foreign	4	50.0	4	50.0
Both	15	83.3	3	16.7
<b>Suppliers' restraints</b>				
Supplier is restraining	1	100.0	0	0.0
Company is restraining	0	0.0	0	0.0
<b>TOTAL</b>	19	73.1	7	26.9
<b>Capabilities/competencies of suppliers<sup>1</sup></b>	4.11		4.00	
<b>Relationship between suppliers&amp;buyers*</b>	3.79		3.67	

Source: Survey. Notes: 1/ 1=very low capabilities/competence, very weak relationships, 5=very high capabilities/competence, very strong relationships.

In the case of technology transfer from buyers, the transfer is relatively more frequent in the case of retailers (75% of cases), than final assemblers (61.9%) and other suppliers (59%), and more frequent in the case of MNE buyers (60.9% of cases) than non MNE buyers (33.3%). This confirms the expectation that MNE buyers more frequently transfer technology to their suppliers to make them produce according their blueprints. On the other hand, it is surprising that retailers more frequently transfer technology to their suppliers than final assemblers. Small number of retailer buyers in the sample (4), however, does not allow any conclusions in this regard. As expected, companies in which technology transfer from buyers was effectuated attach much higher importance to the transfer for upgrading of what and how they make than companies where transfer was not effectuated (see Table 21).

**TABLE 21: Technology transfer from buyers and its importance by type of buyer and buyers' restraints; %**

	Technology transfer from buyers				Importance of tech. transfer from buyers <sup>1</sup>	
	Transfer Effectuated		Transfer not effectuated		Transfer effectuated	Transfer not effectuated
	Number	Share	Number	Share		
<b>Type of buyers<sup>2</sup></b>						
Other suppliers	3	50.0	3	50.0	4.00	3.00
Final assemblers	13	61.9	8	38.1	4.38	1.17
Retailers	3	75.0	1	25.0	4.67	1.00
<b>MNE vs non-MNE buyers</b>						
MNE buyers	14	60.9	9	39.1	4.43	1.14
Non-MNE buyers	1	33.3	2	66.7	5.00	4.00
<b>TOTAL<sup>3</sup></b>	15	57.7	11	42.3	4.47	1.78

Source: Survey; Notes: 1/ 1=very low importance, 5=very high importance of technology transfer for upgrading of what and how the companies make; 2/ Number of answers is higher than the number of interviewed companies because some of the interviewees indicated that they have more than one type of buyer; 3/ Total 26 adds up column "Transfer effectuated" and column "Transfer not effectuated".

### 3. INTEGRATION INTO EU/GLOBAL INDUSTRIAL NETWORKS VIA FOREIGN DIRECT INVESTMENT

#### 3.1. Inward FDI

##### 3.1.1. Motivation for investing in Slovenia and strategic pattern of FDI in Slovenia: efficiency versus market seeking FDI

From the point of view of motivation and strategic pattern of foreign investors' behaviour in Slovenia it is reasonable to distinguish between market-seeking (horizontal) and efficiency-seeking (or vertical) FDI. The latter is motivated by differentials in factor endowments, or by different kind of capabilities, expertise and skills, advantage of economies of scale and scope, and by differences in consumer tastes and supply capabilities. Efficiency -seeking FDI consists of geographical separation of different stages of the value-added chain with forward and backward integration. On the other hand, market-seeking or horizontal FDI is motivated by market access. Orientation of sales to local market in the case of market-seeking and to exports in the case of efficiency-seeking FDI is one of the major distinguishing characteristics between both types of FDI (Dunning 1993, Caves 1971,1982).

**TABLE 22: Motives of foreign investors in Slovenia**

Motive	% of FIEs quoting individual motive <sup>1</sup>
Access to Slovenian market	41.5
Access to other markets	36.3
Technology and know-how	29.8
Quality of labour	26.9
Financial support	25.1
Recognised trade mark	17.0
Purchasing of material and parts	10.5
Low cost of labour	1.8
Acquisition of company in bankruptcy procedure	1.8
Other	7.0

*Source:* Dedek & Novak, 1998. *Notes:* 1/ 183 FIEs answered the question. Each respondent was allowed to quote more motives.

In existing analysis of foreign investors' motivation in Slovenia, gaining access to or enlarging market share has traditionally been the most important motive of foreign investors for coming to Slovenia. But foreign investors generally have quoted to have multiple objectives (growth, profitability, expansion of exports, etc.) in their ventures in Slovenia. Foreign investors also ranked as important motives such as reduction of production costs and having an export base for third countries (see, for instance, Rojec 1998). In the latest available analysis on the subject (Dedek & Novak 1998, see Table 22), access to the local and other (adjacent, neighbouring) markets remain the two most important single motives, however, altogether relevance of other motives - like technology and know-how, quality of labour, recognised trade marks and financial support of the Slovenian target company/joint venture partner and securing material and parts - denoting efficiency-seeking FDI seem to prevail. The interviews of foreign investors, therefore, seem to indicate that most of FDI in Slovenia, especially the one in the manufacturing sector, is of the efficiency-seeking type. As far as the role of labour in that is concerned, it is obvious that it is not the low price (only 1.8% of interviewees quote it as a motive) but rather the quality (26.9%) of labour which motivates foreign investors in the case of Slovenia.

Case studies of FIEs give another set of information on the motivation and strategic pattern of FDI in Slovenia. Eight cases of FDI offer a variety of motivation and strategies of foreign firms when investing in Slovenia:

- a/ Motor vehicle lightning equipment manufacturer Saturnus Avtooprema was acquired by German Hella in the context of Hella's recognition of the need to grow faster and to globalise, i.e. establish direct presence in all major countries in which its major customers (final car assemblers) establish production. In this context Hella especially needed somebody who would be able to adequately handle the Italian market. By acquiring Saturnus, the idea has been to combine Hella's R&D capabilities and Saturnus's lower (labour) costs to penetrate the Italian market. Saturnus has in fact succeeded to penetrate among FIAT's suppliers.
- b/ Synthetic fibres (polyamid filaments and chips) manufacturer Yulon was acquired by Italian Gruppo Bonazzi in the context of the increasing concentration and globalisation of the industry which urged Bonazzi to speed up growth as much as possible. The major motivation of Bonazzi to buy Yulon was basically strategic, i.e. to quickly increase its capacities by acquisition, and in such a way improve its position in a highly oligopolised industry. Strategic motivation was combined by other reasons of a market, costs etc. nature; in spite of not low labour costs in Slovenia, the relations between the labour costs and labour quality/productivity was considered as favourable (Rojec & Stanojević 2001).
- c/ Danfoss from Denmark acquired a compressors' manufacturing company Danfoss Compressors with a motive to get access to relatively inexpensive skilled labour. The investment was aimed at a relatively low cost location from which to serve a very competitive market. The investment was a relocation of part of Danfoss manufacturing capacity in Germany. Almost all the output is exported, EU being the major market. Danfoss is grooming its subsidiary to gain sole responsibility for the European compressor market.
- d/ Bosch-Siemens from Germany took over MGA, which produces small household appliance which are sold under the various Bosch-Siemens brand names, because it was interested in the lower cost of skilled labour in Slovenia and in order to consolidate existing unprofitable sites. MGA exports its entire output. MGA's competitive advantage is work force that is more highly trained than in Southeast Asia (Lorentzen, Moellgaard & Rojec 1998).
- e/ Acquisition of Papirnica Količevo (papermill) by Saffa from Italy was made in a context of Saffa's program of strengthening its position in the international cartonboard industry. By acquiring Količevo, Saffa hoped to gain control over the South European markets, to create a strategic position for future penetration on CEE markets and to get production capacities which were in a position to be expanded substantially at reasonable costs (Rojec & Svetličič 1998a).
- f/ Motivation of Siemens to enter as a minority shareholder in Iskratel which produces switching devices for telecommunication systems was to get a foothold in the regional market, to get access to skilled labour and manufactured inputs as well as the attempt to exercise control over third markets (in the then CMEA), access to indigenous technology, and first mover advantages. The investment is not a relocation of an existing facility. Siemens extensively uses services of Iskratel's engineers who produce customised software solutions for Siemens systems (Lorentzen, Moellgaard & Rojec 1998).

- g/ Two major factors which influenced the decision of Reemtsma from Germany to acquire cigarette manufacturer Tobačna Ljubljana were to strengthen Reemtsma's position in the CEE region and to increase its market share in the former Yugoslavia. The whole project was in the context of efforts to strengthen the position of European cigarette manufacturers faced with increasingly aggressive penetration of the leading U.S. cigarette MNEs to the European cigarette market. Collapse of the former Yugoslav market has made Tobačna mostly exporter of cigarettes (Rojec & Svetličič, 1998b).
- h/ Renault's major motive for investment in Revoz in 1991 was the then Yugoslav market. Lower labour costs and availability of skilled labour were additional relevant motives. After the collapse of the Yugoslav market, Renault had to reorient to export markets. This basically changed market-seeking into efficiency-seeking FDI, what made efficiency determinants of investment dominant. In spite of loss of the Yugoslav market, Renault obviously assessed Revoz as being competitive enough to be fully integrated into Renault's industrial system (Rojec & Stanojević 2001).

The cases offer three basic conclusions. The first conclusion relates to the pattern of foreign investors' motivation and strategic behaviour in the case of Slovenia which is characterised by the following (i) investing in Slovenia is not some solitary operation but is going on in the context of foreign investors' strategy of internationalisation which they feel as increasingly urgent; relocation/restructuring via FDI in the context of globalisation becomes a necessity and not a matter of choice; (ii) foreign investors do not follow a single motive but, in principle, a multiple set of market-seeking, efficiency-seeking and strategic motives; (iii) cheaper labour is an important motive but the accent is always on the favourable price of skilled labour; (iv) a good opportunity, especially possibility to buy a company in the privatisation process, and good previous cooperation between the prospective foreign investor and a target company/local joint venture partner are important stimulators for a foreign company to decide to invest. The second conclusion is that, in spite of the relevance of local (ex-Yugoslav) market as a motive, efficiency-seeking FDI is predominant in Slovenia. The third conclusion is that in the framework of efficiency-seeking FDI, one could distinguish among four kinds of FDI, notably among FDI like (i) Danfoss Compressors and MGA which means relocation of existing facilities or consolidation of existing unprofitable sites; (ii) Saturnus and Yulon being creation of new efficiency-seeking motivated facilities for foreign investors; (iii) Sarrío and Iskratel which really are a combination of market-seeking, efficiency-seeking and strategic considerations; and (iv) Tobačna and Revoz where initial market-seeking motivation was, due to collapse of ex-Yugoslav market, switched for efficiency-seeking motivation (Rojec & Stanojević 2001).

One set of factors which co-determine the extent of export oriented efficiency-seeking FDI versus (local) market-seeking FDI relates to host country characteristics. The issue here is, to what extent specific characteristics of Slovenia as a host country stimulate efficiency-seeking FDI as compared to market-seeking FDI. Four host country characteristics seem to be especially relevant for export propensity of FIEs<sup>8</sup>: (i) most of the evidence suggests that the smaller the host country market the more export oriented are FIEs, (ii) higher host country development level is generally

<sup>8</sup> More on the issue of a host country characteristics which are especially relevant for export propensity of FIEs see in Rojec, 2000b.



correlated with efficiency-seeking rather than market-seeking FDI, (iii) FDI projects in CEE countries that are in more advanced stage of transition reforms are more likely to be export oriented and integrated into foreign parents' multinational production process what is characteristic of efficiency-seeking FDI, (iv) liberalisation of FDI and trade regime, and economic integration (free access to foreign markets) have proved to be crucial stimulators of export oriented FDI. These host country characteristics clearly qualify Slovenia for export oriented efficiency-seeking rather than market-seeking FDI. Slovenia is a very small market (less than 2 million inhabitants with USD 18,122 million GDP in 2000; IMAD 2001a), it is a relatively developed country (GDP per capita of USD 9,105 in 2000; IMAD 2001a) at a more advanced stage of transition reforms (first round candidate country for EU membership), with export-oriented outward-looking development concept (59.0% share of exports and 62.6% share of imports of goods and services in GDP in 2000; IMAD 2001a) and liberal economic policy, liberalised foreign trade regime (the estimated rate of protection for manufacturing was reduced from 36.7% in 1986, to 4.18% in 1993 and 2.72% in 1997; Stanovnik, Majcen & Lavrač, 2000) and increasing economic integration with other countries (Europe Agreement with EU, membership in WTO and CEFTA, free trade agreements with EFTA and a number of other countries).

Actual exports data of FIEs in Table 23 strongly confirm the above conclusions, i.e. the increasing importance and prevalence of export oriented efficiency-seeking FDI in Slovenian manufacturing sector and prevalence of market-seeking FDI in service and public utilities sector. In 1999, FIEs in Slovenia exported 42.6% of their sales. This was to a major extent due to situation in the manufacturing sector, which was responsible for no less than 88.0% of all FIEs exports. In 1999, manufacturing FIEs exported as much as 68.2% of their overall sales (in 1994 62.9%). Situation in non-manufacturing activities is pretty much different since they on average exported only 11.4% of their sales, mostly in the field of transport and communications, trade and business services. Of 20 manufacturing industries in Table 23, FIEs in 5 has exports to sales ratio higher than 80% (medical and precision instruments, electrical machinery and apparatus, machinery and equipment, wearing apparel and basic metals), in 2 higher than 75% (textiles, fabricated metal products) and in 3 higher than 70% (leather, footwear and leather products, rubber and plastic products, motor vehicles). Therefore, there are at least 10 manufacturing industries in Slovenia which distinctively attract efficiency-seeking FDI. The major two are motor vehicles and trailers with exports to sales ratio of 74.5% and 32.8% share in total FIEs exports, and machinery and equipment with 82.8% exports to sales ratio and 11.9% share in total FIEs exports. Also, in no less than 15 out of 20 manufacturing industries in Table 23, FIEs has higher exports to sales ratio than DEs. On average, export orientation of FIEs in the Slovenian manufacturing sector is 43% higher than that of DEs. This additionally confirms distinctively high export orientation of FIEs in Slovenian manufacturing sector<sup>9</sup>.

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<sup>9</sup> FIEs in Slovenian manufacturing sector are, however, not only much more export but also much more import oriented than DEs. Share of FIEs in total manufacturing sector exports in 1997 was 28.2%, in imports 34.4% and in trade balance surplus 16.6%. In FIEs imports to sales ratio was 54.4% while in DEs only 27.7%. Both groups of companies, FIEs and DEs realized high surpluses in their foreign trade flows, but the relative effect on foreign trade account (measured by the surplus to exports ratio) was much higher in the case of DEs (40.5%) than FIEs (20.5%).

**TABLE 23: Export to sales ratio in FIEs and DEs by industries in %; 1999**  
**income statements/balance sheets data**

NACE industries	Exports to sales ratio (%)			FIEs - Distribution of exports by industries (%)
	FIEs	DEs	FIEs/DEs (Index)	
15 Food products and beverages	17.3	13.4	129	1.0
17 Textiles	76.5	70.1	109	2.2
18 Wearing apparel, dressing fur	98.9	54.8	180	0.0
19 Leather, footwear & leather products	72.3	61.8	117	0.4
20 Wood & wood prod., exc. furniture	37.7	51.8	73	0.3
21 Pulp, paper and paper products	68.0	52.2	130	6.6
22 Publishing and printing	48.1	6.8	706	0.7
24 Chemicals and chemical products	65.5	65.9	99	7.6
25 Rubber and plastic products	73.2	53.5	137	4.5
26 Other non-metal mineral products	44.0	39.1	112	2.6
27 Basic metals	80.8	63.6	127	3.5
28 Fabricated metal products	78.4	48.4	162	2.1
29 Machinery and equipment n.e.c.	82.8	62.7	132	11.9
31 Electrical machinery and apparatus	84.8	62.3	136	4.8
32 Radio, television and equipment	48.9	59.3	82	3.3
33 Medical and precision instruments	84.4	61.4	137	1.8
34 Motor vehicles and trailers	74.5	64.5	116	32.8
35 Other transport equipment	40.7	49.8	82	0.0
36 Furniture, manufacture n.e.c.	24.5	50.3	49	0.0
Other manufacturing industries <sup>1</sup>	47.8	12.1	395	2.0
<b>D Manufacturing – Total</b>	<b>68.2</b>	<b>47.6</b>	<b>143</b>	<b>88.0</b>
<b>Non-manufacturing activities</b>	<b>11.4</b>	<b>9.1</b>	<b>126</b>	<b>12.0</b>
A Agriculture, hunting, forestry	11.3	5.9	192	0.0
C Mining and quarrying	2.0	3.3	59	0.0
E Electricity, gas and water supply	6.6	1.4	475	0.0
F Construction	7.0	2.6	272	0.1
G Wholesale and retail trade, certain repair	10.4	7.5	139	8.8
H Hotels and restaurants	0.0	14.8	0	0.0
I Transport, storage, communications	28.5	28.8	99	1.3
J Financial intermediation services	0.8	0.3	258	0.0
K Real estate, renting, business services	24.9	7.4	336	1.7
M Education	0.0	3.2	0	0.0
N Health services and social work	10.7	7.5	142	0.0
O Other community and personal services	2.9	36.3	8	0.0
<b>TOTAL</b>	<b>42.6</b>	<b>21.4</b>	<b>199</b>	<b>100.0</b>

*Source:* Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data. *Notes:* 1/ Sum of industries with less than 3 FIEs (16 - tobacco manufactures, 30 - office machinery, 37 - recycling).

To conclude, although local and adjacent (neighbouring) markets are important motives for investing in Slovenia, consideration of specific characteristics of Slovenia as a host country, case studies of foreign investors' strategy in Slovenia and especially the actual very high export orientation of FIEs in the manufacturing sector support the view that efficiency-seeking FDI dominates in the manufacturing sector of Slovenia. Quite the opposite is in service and public utilities sector, where market-seeking motivation clearly prevails.

### 3.1.2. Wages as a determinant of FDI in Slovenia

Motivation of foreign investors in Slovenia show, as far as labour is concerned, that it is rather quality and not low costs of labour that motivate foreign investors. This is not surprising, knowing that labour costs in Slovenia are far the highest among Central and Eastern European countries in transition. In 1997, monthly labour costs in Slovenia were USD 980, compared to USD 536 in Hungary, USD 461 in Czech Republic, USD 458 in Poland, USD 400 in Slovak Republic, USD 158 in Romania and USD 126 in Bulgaria (WIIW 1999, pp. 180-186).

The finding that it is rather quality than the price of labour which motivates foreign investors in Slovenia is further confirmed by sectoral distribution of FDI in Slovenia characterised by tendency of FIEs to locate rather in capital than in labour intensive manufacturing industries. Even more, not only that they tend to locate in capital intensive industries, FIEs also tend to use much more capital intensive techniques than DEs inside the same manufacturing industries. Out of 20 manufacturing industries in Table 24, in no less than 17 FIEs have higher machinery and equipment per employee than DEs. On average, manufacturing FIEs use 2.33 times more machinery and equipment per employee than DEs.

One would expect that more capital intensive techniques in FIEs also request the use of more skilled labour than in DEs. The data, however, do not seem to support this. If FIEs in the manufacturing sector use as much as 2.33 times more machinery and equipment per employee than DEs, they pay on average only 17% higher labour costs per employee. The existing evidence suggests that a relevant part if not most of the difference in wages is due to the fact that for the same skills FIEs tend to pay somewhat higher, approximately 10%, wages than DEs. For instance, in Tobačna Ljubljana after the acquisition, the policy has been to keep wages approximately 10% above the Slovenian average (Rojec & Svetličič 1998b), in Biterm (thermostats producing company with minority share of Danish Danfoss) wages are claimed to be slightly higher as compared to other companies in the local community (Rojec & Svetličič 1998c), in Saturnus Avtooprema foreign parent company's policy is that wages should be approximately 10% above the Slovenian average, in Yulon the level of wages is also quoted to be higher than average in Slovenia (Rojec & Stanojević 2001). The conclusion is obvious. In Slovenian manufacturing sector, FIEs do tend to use much more capital intensive production techniques than DEs, but these techniques are rather standardised and, in principle, do not request more skilled labour. What FIEs do is that they use more or less equally skilled labour as DEs, pay somewhat higher wages, but with these higher wages FIEs are able to achieve much higher labour productivity, in terms of value added per employee, than DEs. Workers in a typical FIE would agree that work load have increased (considerably) since foreign investor took over a company<sup>10</sup>. Indicator of value added per labour costs is very persuasive in this regard. With 1 SIT of labour costs, manufacturing FIEs are able to produce 1.84 SIT of value added, what is 33% more than DEs<sup>11</sup>.

<sup>10</sup> See, for instance, the cases of Tobačna Ljubljana (Rojec and Svetličič 1998b), Sarrjo Slovenija (Rojec and Svetličič 1998a), Yulon and Saturnus Avtooprema (Rojec & Stanojević 2001).

<sup>11</sup> On average, in all activities with 1 SIT of labor costs FIEs are able to produce SIT 1.78 of value added, what is 25% more than DEs (see Table 24 for detail).

**TABLE 24: Machinery and equipment per employee and labour costs per employee in manufacturing FIEs; 1999 income statements/balance sheets data**

NACE industries	Machinery&equip. per employee		Labour costs per employee		Value added <sup>1</sup> per employee		Value added <sup>1</sup> per labour costs	
	FIEs, mill. SIT	FIE/DE Index,% <sup>2</sup>	FIEs, mill. SIT	FIE/DE Index,% <sup>2</sup>	FIEs, mill. SIT	FIE/DE Index,% <sup>2</sup>	FIEs (Ratio)	FIE/DE Index,% <sup>2</sup>
15 Food products and beverages	4.8	126	3.6	129	4.3	105	1.17	80
17 Textiles	3.6	277	1.9	100	3.8	162	1.98	162
18 Wearing apparel, dressing fur	0.1	20	1.4	82	1.3	7.2	0.93	86
19 Leather, footwear & leather products	1.2	171	2.4	126	3.8	185	1.58	150
20 Wood & wood prod., exc. furniture	6.1	469	2.4	120	4.7	189	2.00	161
21 Pulp, paper and paper products	17.6	677	3.1	1.41	6.3	205	2.04	149
22 Publishing and printing	5.4	225	2.7	71	4.1	82	1.54	117
24 Chemicals and chemical products	7.4	224	3.2	84	7.9	113	2.47	134
25 Rubber and plastic products	2.1	42	2.5	96	3.5	85	1.44	91
26 Other non-metal mineral products	6.9	256	3.0	130	7.1	201	2.35	157
27 Basic metals	5.0	143	3.0	120	4.9	148	1.66	123
28 Fabricated metal products	2.4	104	2.4	104	3.7	116	1.51	110
29 Machinery and equipment n.e.c.	2.6	163	2.4	100	4.2	132	1.76	132
31 Electrical machinery and apparatus	2.6	153	2.8	112	4.7	135	1.68	120
32 Radio, television and equipment	1.1	85	3.6	164	5.5	198	1.53	120
33 Medical and precision instruments	1.7	155	2.1	81	3.3	99	1.58	122
34 Motor vehicles and trailers	6.6	388	2.9	138	6.0	250	2.06	184
35 Other transport equipment	2.8	311	1.9	79	2.3	96	1.20	125
36 Furniture, manufacture n.e.c.	1.9	158	1.8	90	2.5	95	1.40	106
16, 30, 37 Other manufact. industries <sup>3</sup>	7.8	433	4.0	138	13.5	304	3.35	220
<b>D MANUFACTURING - Total</b>	4.9	233	2.8	117	5.1	153	1.84	133
<b>TOTAL - All activities</b>	4.4	148	3.0	115	5.3	146	1.78	125

*Source:* Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.  
*Notes:* 1/ Value added is gross value added, calculated as difference between sales and costs of merchandise, material and services; 2/ Index between indicator for FIEs and indicator for DEs; 3/ Sum of industries with less than 3 FIEs (tobacco manufactures, office machinery, recycling).

What is the rationale of foreign investors in the above context? If increasing labour costs at home make certain production non-viable one of the possible solutions of the problem is relocation of production abroad. By moving production facilities abroad, enterprise continue to utilise its existing industry specific assets, including its given production technique, but swap the home country labour force with the cheaper one in a host country (more on that see in Meyer 1995). In a situation of a given production technique, an enterprise would make a relocation/restructuring decision on the basis of value added to labour costs ratio criteria. The maximum amount of value added per employee, which could be produced by a certain production technique is more or less fixed and, therefore, with increasing labour costs per employee at home, value added to labour costs ratio is decreasing. To prevent the decreasing of value added to labour costs ratio, or better to say, to increase it, an enterprise would establish production capacities abroad, in a country with labour force being able to produce the expected amount of value added per employee with given production technique, but at lower labour costs per employee. Therefore, there are two basic conditions to relocate/restructure via FDI abroad; the first is adequate quality of labour force in a host country, meaning that it is able to realise the expected amount of value added per employee with a given production technique and the second is lower wages than at the existing location.

**TABLE 25: Value added per employee, labour costs per employee and value added per labour costs in the manufacturing sector of Slovenia and major EU investing countries in Slovenia in 1998; national accounts data**

	Value added per employee (Eur)	Labour costs <sup>1</sup> per employee (Eur)	Value added per labour costs (Ratio)
EU – 15	48,800	33,400	1.46
Austria	58,072	34,736	1.67
Germany	56,120	39,078	1.44
Italy	38,552	27,722	1.39
France	62,952	38,744	1.63
Slovenia	16,680	10,624	1.57
FIEs <sup>2</sup> in Slovenia	22,565	11,784	1.92

*Source:* Eurostat 2000; Statistical Office of the Republic of Slovenia 1999. *Notes:* 1/ Remuneration in the case of EU countries and compensation of employees in the case of Slovenia; 2/ Calculated by applying FIEs/All enterprises indexes from company financial statements data (Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data) to national accounts data for Slovenian manufacturing as a whole.

Table 25 clearly demonstrates that one can not make a relocation/restructuring, i.e. investment decision only on the basis of labour costs per employee. Slovenia does have much lower price of labour, i.e. labour costs per employee, than any of the major EU investing countries, but it lags behind very much also in terms of productivity, i.e. quality of labour measured by value added per employee. The only possible basis for decision is comparison of productivity and price of labour in terms of value added per labour costs. *Ex ante*, and from the point of view of prospective foreign investor, this means that, when foreign investor makes a decision to relocate/restructure abroad, he is confident that with the given production technique he will achieve approximately the same productivity as at home but at lower labour costs. It is not that prospective foreign investor is looking at the value added per employee data in a host country; instead he checks whether the conditions which enable achieving requested level of productivity are in place. *Ex post*, successful foreign investors decisions about relocating/restructuring abroad should in fact be demonstrated in higher value added per labour costs in foreign subsidiaries than at home. The case of Slovenia seems to confirm this rationale. Value added per labour costs ratio in manufacturing foreign FIEs in Slovenia is much higher than in the manufacturing sector of any of the major EU investing countries in Slovenia (Rojec & Stanojević 2001).

### 3.1.3. Impact of inward FDI on the Slovenian non-financial corporate sector

Restructuring and development impact of inward FDI in a host country appears in many different ways. Several of them have been documented in Slovenia as well. The first is to find out potential contribution of FDI to the restructuring of Slovenian enterprises by comparing performance and operating characteristics of FIEs and DEs. Major findings of the analysis of FIEs vs. DEs performance and operating characteristics (Rojec 1998, 2000c) are: (i) Comparison of performance of FIEs and DEs does not leave much doubt that FIEs perform much better; not only in general but also with regards to the vast majority of individual manufacturing industries in which FIEs are involved; (ii) FIEs' industrial distribution in the framework of manufacturing sector is radically different than that of DEs indicating that a considerable changing of industry is going on through FDI; (iii) apart from ownership specific advantages brought by foreign investors, analysis suggests four major areas in

which FIEs show distinctively different operating indicators that might explain their superior performance. These areas are company size, level of capital intensity, structure of assets and level of export orientation. Compared to DEs, FIEs are much larger in size, more capital intensive, have better structure of assets and are more export oriented.

Export orientation of FIEs is one of the major FDI related wishes of any host country government. Rojec (2000c) and Rojec, Damijan and Majcen (2000) claim that FIEs in Slovenian manufacturing sector export a significantly larger portion of their output than DEs and that they buy significantly more inputs abroad than DEs. These differences are predominantly subject to the type of ownership (foreign versus domestic) and far less to the different distribution of FIEs and DEs among different factor intensity sectors. Therefore, foreign ownership as such does matter in a positive sense, as far as export propensity in Slovenian manufacturing sector is concerned.

Majcen (1998) analysed the role of FIEs and DEs in the industrial growth and structural changes in Slovenia. Based on cluster analysis of factor intensities for NACE 3-digit level industrial sectors and using a number of variables, he distinguishes between capital intensive, labour intensive, human capital intensive, and R&D and human capital intensive industrial groups. FDI is distributed mainly between capital (56%) and labour intensive (37%) industrial groups. In the 1992-1996 period, the importance of FIEs in output and exports increased, the highest and growing shares being found in the capital intensive group. Shares in the labour intensive industries are below average but are increasing rapidly. Measured by total output, FIEs are concentrated in capital intensive and in the R&D and human capital intensive industrial group. In terms of exports, capital intensive orientation of FIEs is even more pronounced. On the other hand, DEs could be characterised mainly as producers of labour intensive and human capital intensive products with high and increasing importance in the exports of R&D and human capital intensive products. Majcen's conclusion is that FDI has played a positive role in the restructuring process in Slovenia and that increasing output shares of industrial sectors with high shares of FIEs can be regarded as sustainable.

Case studies of FIEs focus on the restructuring which is going on in a company after the entrance of strategic foreign partner (Agens 1999, Rojec & Svetličič 1998a, 1998b, 1998c, Svetličič & Rojec 1998). Already before foreign acquisition, most of the interviewed enterprises had been on a reasonable technological level that made them appealing to foreign investors. Most of them would have much more difficulties with their survival and further development without strategic foreign investor. Restructuring of the acquired companies usually took place relatively smoothly and in a speedy manner. In some cases, strategic foreign investors did not bring dramatic overnight changes but more speeded up the already existing restructuring efforts. In all the cases foreign partners brought new technology, know-how, finance and the means for the company to gain access to western markets. One can identify the following most frequent changes which followed a take-over of a company by a strategic foreign investor: (i) product quality was upgraded, as a result of changes in production and technological process, and of more accent given on product quality in general; (ii) production program changed, i.e. improved; the range of products was mostly reduced so as to concentrate on core activity; (iii) organisational structure changed to reflect western business methods; (iv) there was a considerable initial and

permanent increase of training for management, but also for workers; (v) new systems of accounting and financial reporting were set up which conformed to international accounting standards. Much more accent was given on information gathering and dissemination because it is crucial for a competent decision making; a lot of resources were invested in the internal information and controlling systems; (vi) managers in general retained their jobs (A very high importance is attributed to the stability of management.), but in most cases there was a redundancy of workers. The latter issue was, in principle, resolving by soft methods (enabling workers an early retirement, helping them with establishing their own private business etc.). Workers are usually better paid than in comparable domestic enterprises which, in part, contributes to improved productivity; (vii) subsidiary-parent company relation depends on the nature of the organisation of a parent company. Generally, strategic decisions are made at foreign partner's headquarters, but in day-to-day operations the interviewed subsidiaries are largely autonomous; (viii) role and quality of marketing substantially improved after the take-over; (ix) foreign parents were generally instrumental in introducing environmentally better products and processes.

#### 3.1.4. Slovenian inward FDI policy

1999 was a key year for developments in Slovenian FDI policy. The government adopted a new programme for the promotion of foreign direct investment, and reinforced this commitment with a number of important legislative reforms. In particular, amendments were made to the Commercial Companies Act and the Foreign Exchange Act, the only law to deal directly with FDI, was adopted. Together with the Take Overs Act of 1997, these three pieces of legislation provide for an open and non-discriminatory legal regime that extends the national treatment secured under the Europe Agreement, which also entered into force in 1999, to all foreign investors. Only a few restrictions similar to those maintained in many OECD countries remain, such as on investment in the production of armaments, gambling, obligatory public health insurance, essentially based on public order and national security considerations.

In 2001, the government adopted new strategic development document *Slovenia in the European Union: Strategy for Economic Development of Slovenia* (IMAD 2001b) which sets the major objectives, reforms and policy mechanisms for the development of Slovenia's economy until 2006. The document affirms FDI as an important factor in Slovenia's development process. Internationalisation is one of the key words of the document, because internationalisation is becoming an increasingly important element of boosting corporate sector competitiveness. Slovenia's internationalisation policy will be based on the following guidelines: (i) lift barriers to internationalisation, (ii) tailor measures to the actual needs of companies, (iii) design flexible and transparent guidelines with a long-term perspective, (iv) make policy adaptable and changeable, and (v) found policy on a holistic concept of internationalisation. Inward and outward FDI is becoming increasingly important in the context of internationalisation.

Slovenia's strategic guidelines in the field of inward FDI are (i) stimulate FDI in the post-privatisation period, (ii) open the privatisation of state-owned assets to strategic and institutional investors, (iii) stimulate foreign investment in the sector of business services, and (iv) stimulate private investment in industrial estates where the state will provide appropriate infrastructure. Priorities of Slovenia's policy of attracting inward

FDI are: (i) adapt the existing economic incentive schemes so that they are accessible to new foreign investors and comparable to those in competing countries, (ii) establish a state-owned company to manage industrial estates and assign state-owned companies with spatial potential the task of providing a competitive supply of land to domestic and foreign investors, (iii) help local communities to attract FDI, (iv) set up an institution responsible for attracting FDI with a clear legal mandate, supervisory body, sufficient staff, and budgetary funding.

The actual policy stance towards FDI is based on the recognition that considerable increase of FDI in Slovenia can not occur without: (i) widely opening the door of privatisation of state property to foreign investors and accelerating the privatisation process at the same time; (ii) an attractive investment incentives program (iii) immediately making ready for use new industrial land with all the necessary (infrastructural) facilities and (iv) ambitious program for the elimination of administrative barriers to investment. All these should be accompanied by an aggressive promotion of Slovenia as investment location.

The Program of the Government of the Republic of Slovenia for the Promotion of Foreign Direct Investment in 2000 (TIPO 2000) was the first attempt to tackle some of the above issues. Measures, which aimed at improving Slovenia's competitiveness as a destination for FDI, were: (i) simplifying administrative procedures, (ii) improving accessibility of building sites to the greenfield investors, mostly in industrial production, and (iii) adjusting the current system of economic incentives, so that it would be accessible to the foreign investors and comparable to the incentives in other competitive countries as regards attracting FDI. The Program also pledged for privatisation being more open to foreign investors (strategic and institutional), especially concerning the public utilities and companies owned by the Slovenian Development Corporation and other state-owned industrial enterprises (Slovenian Ironworks - Slovenske železarne). Program also provided for active role of foreign investors in the privatisation of the financial and other services sectors.

Program for 2000, has been recently upgraded by Program of the Government of the Republic of Slovenia for the Promotion of Foreign Direct Investment in 2001-2004 (TIPO 2001). This Program promulgates the following priorities: (i) the lifting of administrative barriers to investment in general entailing the areas of purchasing land for the purposes of investment, acquiring permits for site development, acquiring work permits for foreigners and hiring and firing procedures for employees, facilitating procedures for setting up companies (registration at court and business activity permit), and reporting on companies' international operations; (ii) improve the supply of construction sites for industry (setting up an agency for providing services in the area of acquiring land for industry, devising a divestment program for state-owned companies in order to dispose of non-essential assets, enabling local communities to become more actively involved in the development of industrial parks etc.); (iii) an internationally comparable system of non-refundable incentives. The state will use incentives to help investors in introducing technologically advanced businesses in the field of industry and services and in creating jobs. One criterion companies applying for an incentive should meet is that they create at least 100 new jobs in a period of two years and whose investment totals over EUR 2 million. In less developed regions, the threshold is 50 new jobs in a period of one year, but this does not include the expansion of the existing production in the same location. The



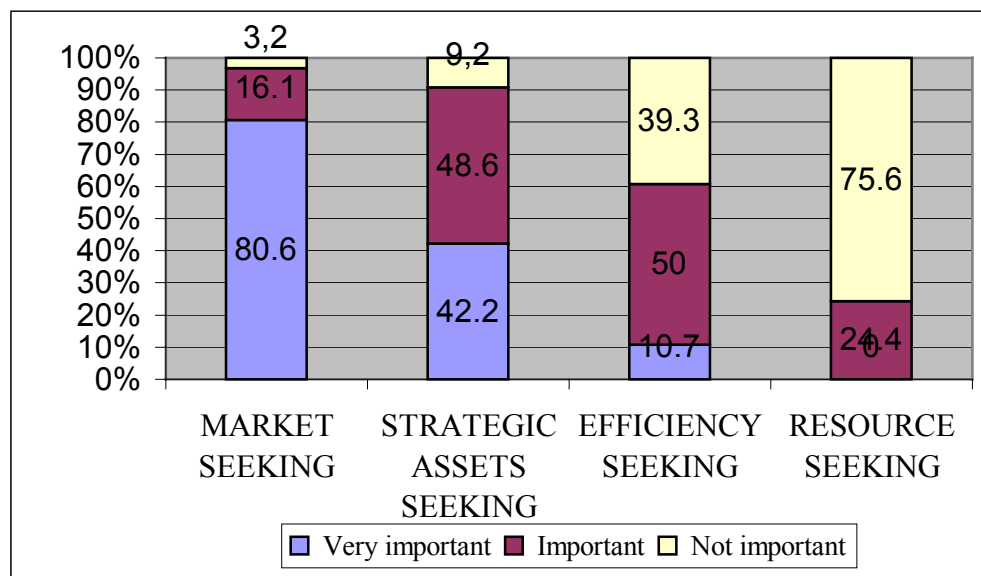
program also aims to stimulate the establishment or expansion of research and development departments whose investment totals over EUR 5 million and creates at least 10 jobs in the period of one year. Incentives will be earmarked for the infrastructure and other facilities necessary for industrial land, the construction or purchase of buildings, the purchase of machinery and equipment, and training.

### 3.2. Outward FDI<sup>12</sup>

#### 3.2.1. Motivation and strategies of Slovenian investors abroad

The analysis of motivation of Slovenian investors abroad is based on the survey carried out among Slovenian companies with outward investments. The sample includes 32 companies, holding about 16% of total stock of Slovenian outward FDI.

In analysing motivation of Slovenian companies for investing abroad four main groups of motives were distinguished: resource-seeking, market-seeking, efficiency-seeking and strategic-asset-seeking (Dunning 1993). To evaluate the importance of a particular motivation group, several of the individual motives listed in the questionnaire were merged using Likert's method (see Figure 1). Figure 1 displays the rank of these four groups of motives. Each motivation group is further analysed in detail (Figures 2-5).



**FIGURE 1: The importance of a particular group of motives**

Source: Survey on OFDI of Slovenian companies, June to October 1999.

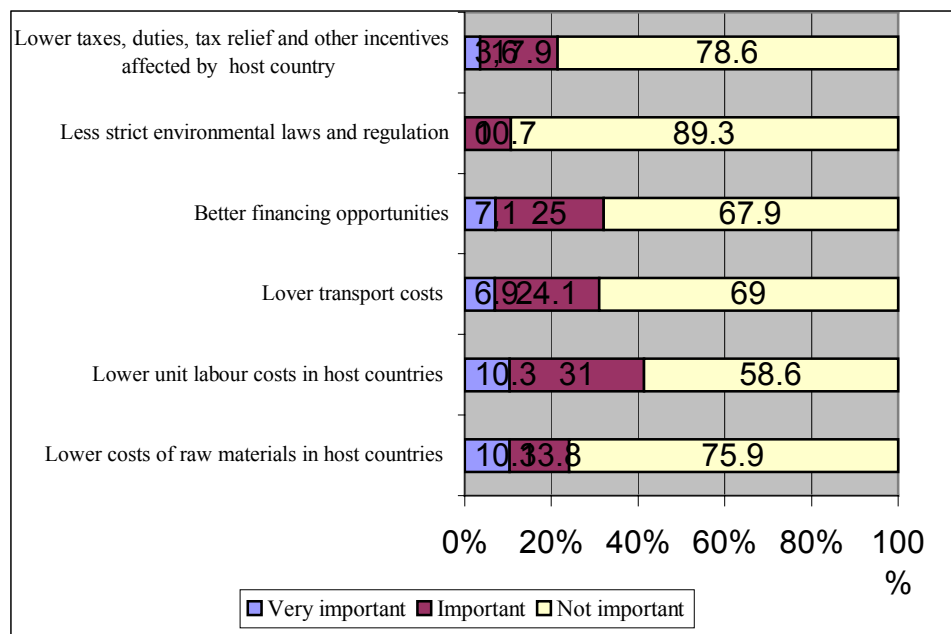
The survey put forward market-seeking motives as the most important group of motives. They are followed by strategic-asset-seeking, increasing efficiency and, lastly, resource-seeking motives (see Figure 1). A small domestic market, the loss of the markets of the former Yugoslavia at the beginning of the nineties, increased competitive pressures by foreign companies in the domestic market and the development level of this internationalisation practise determine the intensity of the group of market-seeking motives. According to Dunning (1993), this kind of

<sup>12</sup> This part is based on Jaklič 2001a, 2001b; Svetličič and Jaklič 2001.

motivation is the strongest in the initial stages (second stage) of the investment development path. Similar arguments – especially a small domestic market and relatively high labour costs - would support the importance of resource-seeking motives but, contrary to our initial expectations, they appeared to be the least important.

The explanatory power of differences in resource abundance seems to be weak in explaining the patterns of Slovenian outward FDI. Although Slovenia is small and therefore in terms of factor endowments, a poor country, incentives relating to resource-seeking proved in fact to be the least important. Major host countries, however, have similar factor endowment. Regardless of the type of production factor, production factor costs were assessed as an unimportant motive for most of the sample companies. Unit labour costs were seen as being slightly more important compared to other factors, though Slovenian labour costs are relatively high. Major host countries (at least in the region of the former Yugoslavia) have quite lower labour costs, but also lower productivity. The first explanation could be that the sample companies actively involved in the internationalisation process have already passed through the stage of major resource allocation (although one could counter that permanent and ongoing resource reallocation is in fact needed to stay competitive) and are now predominantly following other motives. Perhaps more reliable explanation is the lack of knowledge of what a global combination of factors (globalisation) can offer in terms of strengthening competitiveness together with the lack of capacity to achieve such globalisation.

**FIGURE 2: The importance of resource-seeking motivating factors**



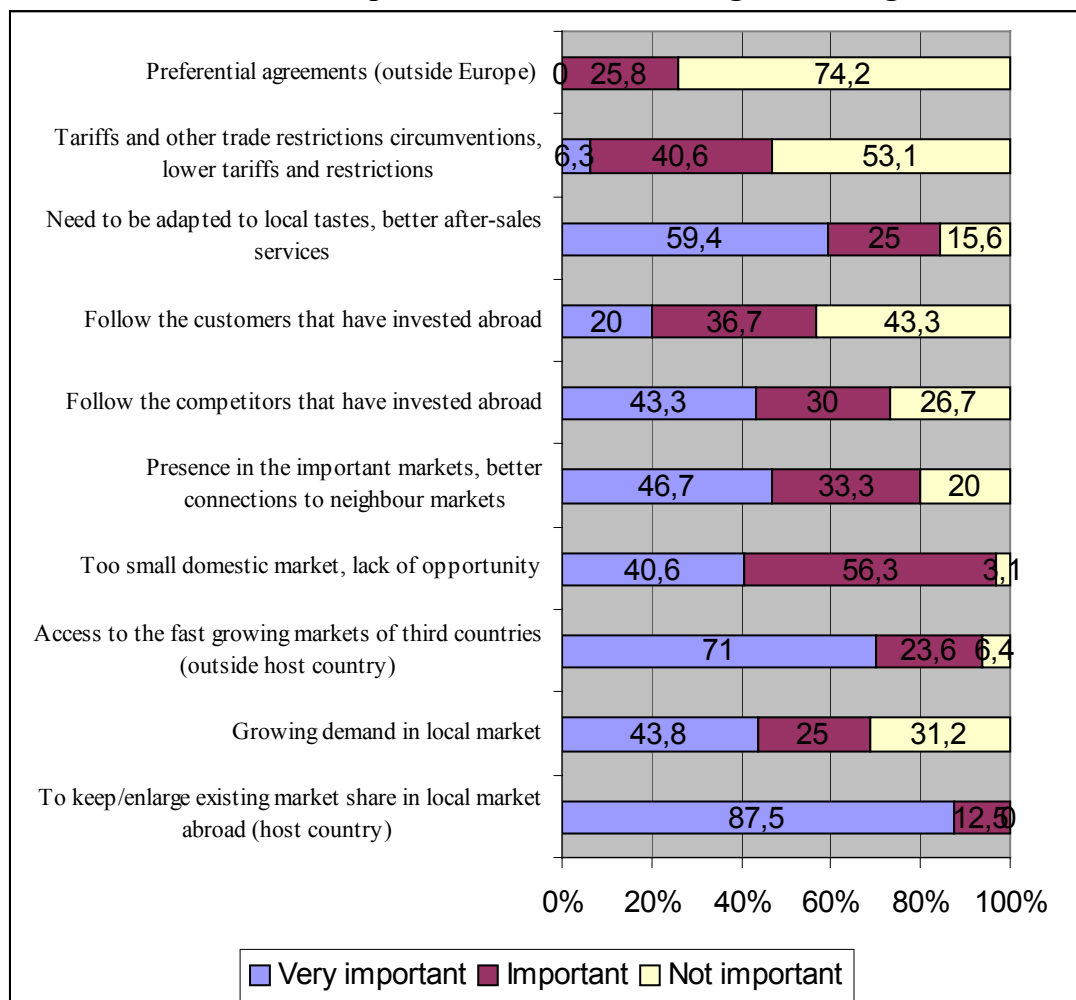
*Source:* Survey on OFDI of Slovenian companies, June to October 1999; *Note:* Valid Percentage of investors evaluating a particular motivation factor as very important, important or not important.

Most Slovenian outward FDI is clearly market-seeking. This can easily be explained by the loss of the former Yugoslavia market after Slovenia gained independence. A small domestic market with increasing inward internationalisation and competition

and the stage of economic development further support the reason that outward FDI is predominantly market-seeking. The slow growth of foreign demand in EU markets, continuous trade balance deficit in the 1990s and current account deficit since 1998 remind firms that export capability has to be further developed and enriched through a direct presence in foreign markets.

The fact that, as a motive for outward FDI, market potential outweighs factor price differences (or labour cost, natural resources) suggests that Slovenian MNEs are more of a horizontal than a vertical type. Vertical multinationals dominate when countries are very different in relative factor endowments (e.g. capital/labour, skilled/unskilled labour), while horizontal FDI predominates between similarly endowed, similar sized countries in the presence of relatively high trade costs. The chief locations of Slovenian outward FDI are - except for labour costs - not very different in factor endowments. This coincides with the findings that Slovenian affiliates abroad are more trade- than local-production- oriented (production relocation). As the survey have showed, only 11% of foreign affiliates (of the sample companies) are involved in manufacturing, while more than 90% of them are in sales and marketing. The modest share of resource-seeking motives is consequently understandable.

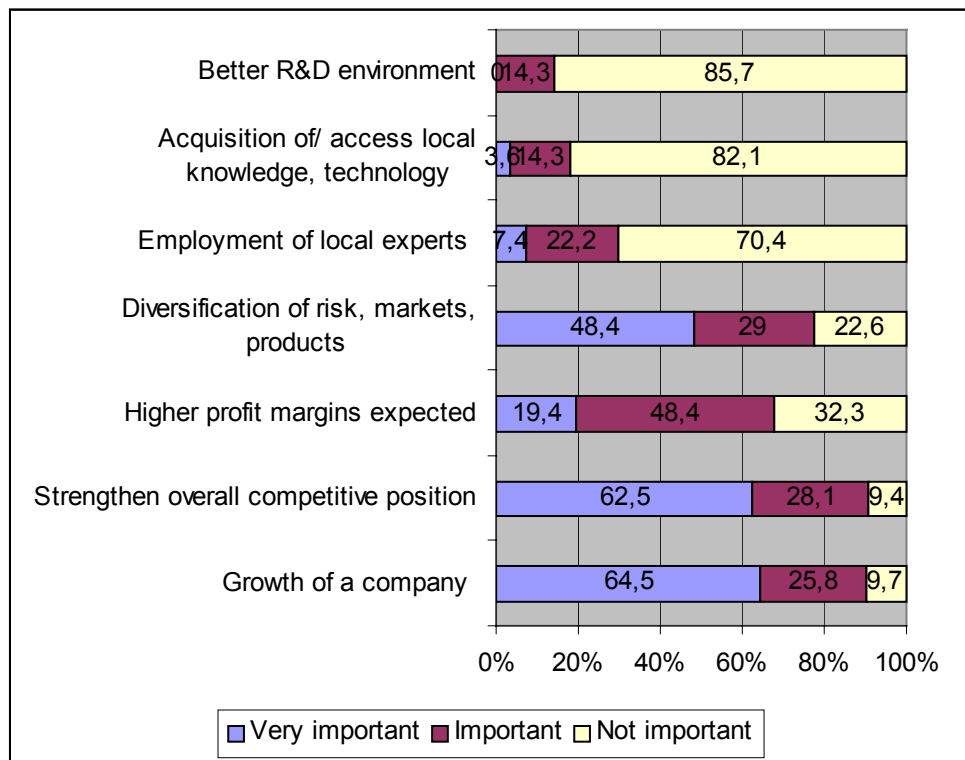
**FIGURE 3: The importance of market-seeking motivating factors**



Source: Survey on OFDI of Slovenian companies, June to October 1999; Note: Valid Percentage of investors evaluating a particular motivation factor as very important, important or not important.

The high importance of market-seeking motives should also be examined in the context of declining export competitiveness. On average, Slovenian companies export very standardised and labour intensive products, which are extremely sensitive to competitive pressures. In the case of Slovenia, an analysis of the external position of the economy discovered that export commodity composition is concentrated in those commodity groups for which foreign demand, which is the most important variable of the export results, grows less than on average. Additionally, the commodity structure of exports has not changed much in the last few years (Strojan Kastelec 2001). Although Slovenian companies succeeded in keeping their market shares in the EU almost unchanged, they have lost competitiveness with respect to CEFTA countries, which increased their market share up to 60% (for example, Hungary). The changes in export results (growth) of CEE countries in the 1990s also depended on the initial level and structure of exports at the beginning of nineties. The level of export was much higher in Slovenia compared to other CEE countries at the beginning of the nineties. The next important stimulus to exports is inward FDI which was, contrary to initial export levels, much lower in Slovenia than in other CEE countries (especially in comparison to Hungary). Losses of export competitiveness force Slovenian companies to employ a new entry mode for keeping the existing market shares as well as expanding or acquiring them. Outward FDI is therefore primarily a means of a “market protector”.

**FIGURE 4: The importance of strategic-assets-seeking motivating factors**

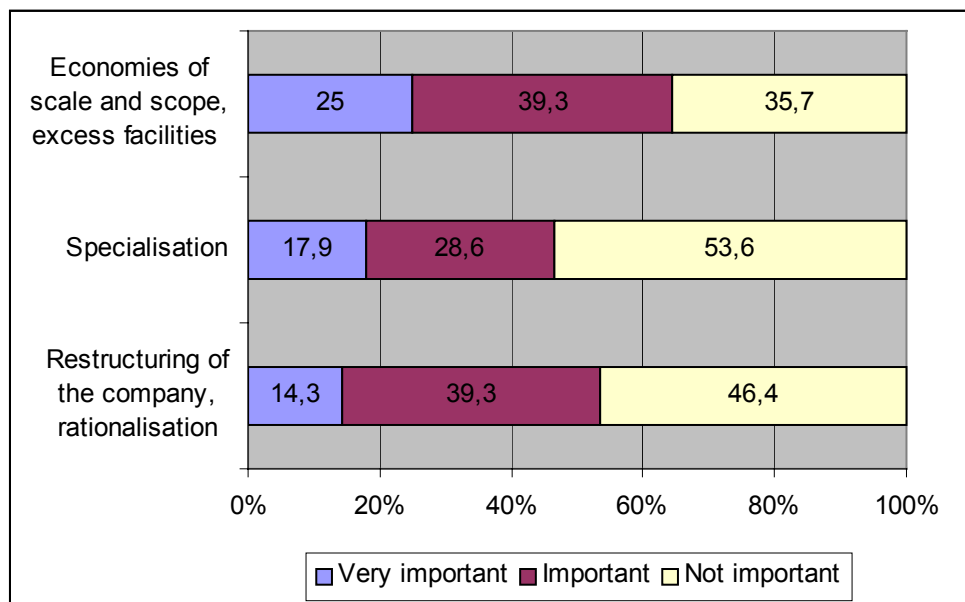


*Source:* Survey on OFDI of Slovenian companies, June to October 1999; *Note:* Valid Percentage of investors evaluating a particular motivation factor as very important, important or not important.

Strategic asset-seeking proved to be the second most important motive of Slovenian companies to invest abroad. Growth of a company and strengthening its overall

competitive position were evaluated as particularly important motives for outward FDI. These investments are, according to theory, long-term in orientation (enhancing assets and competitiveness), and a reflection of the international strategy of MNEs. Often, strategic-asset-seeking motives are closely related to efficiency-seeking motives, which in our survey follow strategic-asset-seeking motives in terms of importance. Frequently strategic-asset-seeking motivated investments are manifested through mergers and acquisitions, which recently has been the most important form of FDI growth. Although mergers and acquisitions save time in the processes of a firm's growth and asset creation and offer quick technology and knowledge transfers, companies at the beginning of the internationalisation process are unable to cope with mergers and acquisitions. They are quite rare in the case of Slovenian outward FDI. Greenfield investments still predominate (see Table 26). According to the survey from 1999 85.4 % of foreign affiliates of the sample companies were established as the greenfield type, 11.7% through acquisitions and 2.9% through mergers.

**FIGURE 5: The importance of efficiency-seeking motivating factors**



*Source:* Survey on OFDI of Slovenian companies, June to October 1999; *Note:* Valid Percentage of investors evaluating a particular motivation factor as very important, important or not important.

Firm-specific strategic advantages are specific products adapted and already affirmed in markets of penetration. Lastly, abroad the companies seek to capitalise their not very new technology but that which is suited to the needs of local factor configuration. Quite a number of Slovenian firms are investing abroad in kind, transferring to their affiliations their own technology while, at the same time, starting to upgrade their own. Adapted technology and adapted products are their firm-specific advantages rather than very new products and very recent technology. After strengthening market position and acquiring market knowledge, we can expect that the group of investors mainly motivated by strategic reasons will expand. For improving international competitiveness, this type of investment requires some already developed firm-specific advantages but, on the other hand, it offers first-time foreign direct investors the opportunity to gain competitive strength in an unfamiliar market. Strategically, outward FDI goes hand in hand as firms restructure their assets to meet their objectives (Dunning 1993).

The efficiency-seeking motivation for outward FDI as the third most important group of motives can only be realised after a parent company has established some foreign affiliates. They facilitate the further relocation of resources (by using differences and similarities of factor endowments and economic systems and institutional agreements in different countries) pursuing the maximum-efficiency objective. Through central supervision of geographically spread activities, this type of investment aims to increase yields with specialisation, economies of scale and scope and risk diversification. Although the affiliate network of the average sample company is expanding (according to the survey on average from 2 to 4 from 1992 to 1998), there are only a few *star companies* in a position to invest abroad for this reason. The important explanatory variable in this respect is the size and international experience of a company. Although Slovenian MNEs are on average bigger and more experienced than companies without direct investment abroad they are still small and inexperienced compared to Western MNEs. Since economic integration (and liberalisation) usually stimulates this type of investment, we can expect their growth after Slovenia joins the EU.

Beside the analysis of motivations for outward FDI, the motivation of potential Slovenian investors abroad, namely of the largest exporters and the fastest growing firms, was also analysed. The results were very similar. The ranking of the four motivation groups was actually the same, while the intensity of the importance differed between the two samples. Still, the foremost were market-seeking motives, where almost all agree with their importance, followed by strategic-asset-seeking, efficiency-seeking and resource-seeking ones. However, in the sample of exporters and the fastest growing firms the significance of the last three motivation groups was very close and much higher than in the sample of companies with outward FDI. Companies not entering this internationalisation probably assess outward FDI as a “broader” tool, not only a means of acquiring market shares.

The analysis of plans has shown that more and more Slovenian companies are aware of international growth opportunities. This is true for companies at different levels of internationalisation; those already investing abroad, those exporting and those only beginning to enter foreign markets. International dimension of a company’s operation and strategy is on the increase regardless of internationalisation stage.

**TABLE 26: Internationalisation-related plans of the leading investors abroad<sup>1</sup>**

	Expanding existing affiliates abroad		Establishing new affiliates		Abolishing affiliates abroad	
	No. of companies	%	No. of companies	%	No. of companies	%
Within next 5 years	12	37.5	26	81.25	2	6.25
Within next 10 years	19	59	14	43.75	5	15.6

*Source:* Own Survey 2000; *1/ Note:* The total number of sample companies is 32. Each company may have more plans.

Among the leading exporters the survey (carried out as well in 1999) showed that more than 50% of them intend to directly invest abroad within the next three years. Only 12% of them see no need to invest abroad in the near future. Those that already started investing abroad (the sample of companies with outward FDI) have even greater expansion plans, since 62% of the sample companies plan further direct investment abroad (either new investments or expansion of existing ones). The most

rapid increase is expected from today's leading investors which will mainly focus on growth in the number of affiliations within the next five years and their expansion in the longer run (see Table 26).

### 3.2.2. Slovenian outward FDI policy

Foreign Exchange Act is the fundamental piece of legislation in the field of outward FDI. The Act does not contain any restrictions for outward FDI. As already mentioned, in 2001, the government adopted new strategic development document *Slovenia in the European Union: Strategy for Economic Development of Slovenia* with the notion that internationalisation is becoming an increasingly important element of boosting corporate sector competitiveness. The state intends to take steps to help Slovenian investors abroad. The steps will be the following: (i) collect and provide information about the investment opportunities abroad and concrete projects, make initial contacts with potential foreign partners, get more help from diplomatic or consular representatives, (ii) improve the climate and regulatory framework in Slovenia for outward FDI, (iii) stimulate the establishment of risk capital funds to facilitate activities necessary to invest abroad, (iv) provide help in training staff, (v) introduce internationalisation-related subjects in the curricula of schools of higher education, stimulate practical work of post-graduate students in domestic and foreign companies that gained some experience in internationalisation (IMAD 2001b).

The economic policy in favour of more intensive and faster internationalisation through outward FDI has only just started to be shaped. In 2000 a programme for stimulating outward internationalisation was launched for the first time. The resources of the programme are quite modest<sup>13</sup>. The only really important instrument facilitating outward FDI is the export credit and insurance (guarantee) scheme of the Slovenian Export Corporation. The first priority of future policies promoting outward FDI should be the elimination of barriers hindering such investment, including the elimination of attitudinal and organisational barriers. The second priority is the application of best practices implemented by other countries. These include: (i) the promotion of "holistic" internationalisation that covers both the inward and outward dimensions; (ii) the promotion of integration processes with the local economy (mergers and acquisitions); and (iii) the development of firm-specific advantages. There can be no outward FDI without certain ownership advantages being developed by the investing firms in the product or technology fields. Finally, the creation of a comprehensive macroeconomic database in line with international standard (OECD, International Monetary Fund and the European Union's EUROSTAT) for the evaluation of outward FDI is a precondition for any future in-depth research, or for developing a more ambitious outward FDI strategy.

## **CONCLUSIONS**

Slovenia is a small economy, which is somehow "condemned" to be open and highly internationalised. Relatively high shares of exports and imports in GDP indicate that the economy is highly dependent on foreign markets and inputs. This orientation is

<sup>13</sup> Resources in the amount of SIT 1.4 billion were allocated in 2000 to cover some preparatory activities of firms for outward FDI (matchmaking, feasibility studies, training, material costs, consultancy services and experts for specific projects).

additionally strengthened by the final stage of the transition process and accession to the EU, both meaning definite opening of the economy and its integration into EU and global economy. To become viable actors in the internal market of the EU and globally, Slovenian companies definitely need to strengthen internationalisation of their activities in all possible modes, but especially via FDI.

Traditionally, the major mode of internationalisation of Slovenian companies has been foreign trade. With the beginning of transition and disintegration of the former Yugoslavia, it was precisely the ability of the Slovenian corporate sector to reorient sales to EU markets, which helped the companies to cope with the increased competition on the domestic market and with the loss of the former Yugoslav market.

With approaching to the EU and development of the economy, Slovenia, on one hand, is gradually losing its traditional competitive advantages, based on relatively cheap but reliable and quality labour force, and, on the other hand, is lagging behind in restructuring the economy towards higher value added activities. These trends, which result in unchanged market shares of Slovenia abroad, jeopardise existing export competitiveness, put aside the rationale for OPT, which is losing in importance, and put forward FDI as the major Slovenian internationalisation challenge for the future. This holds for inward as well as for outward FDI. Evidence suggests that inward FDI helps restructuring the corporate sector towards industries with higher value added per employee and, thus, increasing national competitiveness. On the other hand, outward FDI, by establishing direct presence on foreign markets, promotes exports and enables restructuring of the investing firms by relocating certain, lower value added labour intensive activities abroad. Inward and outward FDI directly fosters the internationalisation of Slovenian corporate sector, and also indirectly stimulates it, by positive impact on the restructuring process and, thus, on the national competitiveness. Because of these reasons, intensification of inward and outward FDI is the main challenge of internationalisation of Slovenian economy in the future.

As expected outward FDI activity of Slovenian corporate sector was relatively low since the beginning of transition, and has started to emerge only recently. This emergence coincides with the concluding phase of defensive, transition related enterprise restructuring in an increasing number of companies. Outward FDI is motivated by market, as well as by efficiency-seeking factors and is directed to the countries of the former Yugoslavia and, to a lesser extent, to other transition countries. Outward internationalisation via FDI is expected to strengthen in the future and to tackle the EU countries as well. The later is related to the EU integration process of Slovenia.

In the past Slovenia has not been very successful in attracting FDI from abroad. Apart from specific privatisation model, relatively low inward FDI has been one of the important reasons for slow restructuring of the Slovenian corporate sector and stagnation of its export competitiveness. The reasons for FDI inflows not being as high as in countries like Hungary and Czech Republic have been as follows: (i) small local market, (ii) mass privatization concept in industry and trade which implicitly favored internal (employee and management) buy-outs; (iii) hesitant privatization of state ownership in the financial and public utilities sector, where only recently more decisive moves have been initiated; (iv) administrative barriers to investment and operating of companies, especially related to company registration, business activity



permit, acquiring land, site development, expatriate work permit and employment regulation; (v) problems in acquiring industrial locations, (vi) relatively rigid and protective labor legislation, and (vii) policy of promoting FDI which was long rather passive (more see in Rojec 1998, Dedek & Novak 1998, FIAS 2000). Apart from the elimination of the above mentioned barriers, two major determinants of future FDI inflows in Slovenia will be: (i) process of integration in the EU and (ii) process of privatization of financial sector and public utilities. In this framework, of course, a number of other factors will be relevant; above all the finalization of the transition process. Namely, adequate framework of macroeconomic and macro-organizational policies (more on that see in Dunning 1992) is extremely important for the attraction of export-oriented FDI projects which dominate in Slovenia.

Internationalisation of operations is increasingly becoming a critical factor for creating and stimulating a competitive corporate sector in Slovenia. To strengthen the internationalisation processes, the policy of internationalisation should be based on the following: (i) lifting barriers to internationalisation; (ii) taking the actual needs of companies as a starting point; (iii) flexibility, transparency and the long-term perspective; (iv) adaptability and a re-examination of policy; and (v) a holistic concept of internationalisation. Increasingly important aspects of internationalisation are inward and outward FDI.

As far as inward FDI is concerned, Slovenia should promote FDI in companies being privatised under the mass privatisation scheme, open up the privatisation of state-owned assets to strategic and institutional foreign investors, stimulate all kinds of foreign investments in the sector of business services, and stimulate private investments in industrial estates where the state has provided appropriate infrastructure. Priorities of the policy of stimulating inward FDI should be: (i) accommodate the existing systems of economic incentives so that they are accessible to foreign investors and comparable with Slovenia's rival countries; (ii) launch a comprehensive programme of eliminating administrative barriers to investment; (iii) set up a state-owned company responsible for managing industrial estates and call on state-owned companies with appropriate capacity to provide land and premises to foreign and domestic investors on internationally competitive conditions; (iv) provide help to local communities in order to stimulate FDI; and (v) set up an institution for the promotion of FDI with a clear legal mandate, professional supervision, and appropriate staff and budgetary funding.

The state should also assist potential Slovenian investors abroad by: (i) collecting and providing information about investment opportunities and specific projects, making preliminary contacts with potential foreign partners, and providing greater support to consulates and diplomatic missions abroad; (ii) improving the climate and regulative framework for direct investments abroad; (iii) promoting the setting-up of risk capital funds to facilitate activities related to investment abroad; (iv) providing help in training staff; and (v) incorporating subjects related to internationalisation into higher education curricula, and stimulating traineeships of postgraduate students in foreign and domestic companies with some experience in internationalisation.

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