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WTO LIBERALISATION, EU ACCESSION, AND SENSITIVE INDUSTRIES - THE SLOVENIAN CASE

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Summary

With accession to the EU, Slovenia will simultaneously become a member of customs union, meaning that existing trade barriers with partner countries should be abolished and that trade policy against third countries should be adapted to the policy of the Union. Slovenia should cede up the instruments of common commercial policy. Practical importance for Slovenia will be caused by loss of national sovereignty in the field of anti-dumping measures as well as in concluding trade agreements what will have considerable effects on trade with countries in the area of former Yugoslavia.

According to the results of the Uruguay round negotiations, most of quantitative restrictions in trade with textiles and clothing will be abolished on 1 January 2005. Slovenia has to be prepared to confront with such keen competition in this branch, especially due to the essentially higher share of employees and exports of this branch in the manufacturing activities of Slovenian industry and its higher regional concentration. Both the Slovenian government and Slovenian companies have to make adjustments to prepare for these changes in operating environment simultaneously with the accomplishment of all necessary processes before accession to the EU internal market and to common policies of the European Union.

Keywords: *trade policy, World Trade Organisation, EU accession, sensitive industries*

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1 BACKGROUNDS

1.1 Strategic objectives in foreign trade

Slovenia's most important partners are and will be European countries, primarily EU economies. Therefore, EU membership is of primary importance to assure Slovenia the expansion of its market, and its inclusion in European flows of capital and transfer of technology and know-how.

Further two objectives are (Bobek et al. 1996):

- Retaining global trade orientation, increasing international economic co-operation with other countries, notably, from the CEFTA and the former Yugoslav area;

- Increasing the Slovenian economy's competitiveness, harmonising of the Slovenian regulatory framework with the *acquis communautaire*, and adjusting to new WTO rules.

1.2 Development of relations between Slovenia and the EU

The enlargement of the European Union to the countries of the Central and Eastern Europe is both a historical challenge and a guarantee of stability for the entire Continent (European Commission 1996). Considering the great differences in the economic and social development of the candidate states, the enlargement of the European Union represents a significant institutional and political challenge. At the same time it is a great opportunity in terms of economy, security and culture, and of Europe's position in the world.

Slovenia, although one of the most developed applicant countries, is still lagging considerably behind the EU Member States. The objective of Slovenia is to reduce differences in the level of economic and social development in comparison to the EU.

The legal institutional framework of relations between Slovenia and the European Union has been set up through the *Cooperation Agreement*. Negotiations for the conclusion of this Agreement were initiated in July 1992. The Agreement on Cooperation between Slovenia and the European Economic Community was signed on 5 April 1993 and came into force on 1 September the same year. Based on the Cooperation Agreement, the Agreement on Trade with Textile Products was concluded.

On the basis of the concluded Cooperation Agreement, the negotiations for the conclusion of the *Association Agreement* between Slovenia and the European Union started on 15 March 1995. Negotiations were finished on 19 May 1995, and the Agreement was initialled on 15 June 1995. The signing took place only on 10 July 1996 because one of the Member States was opposing it.

By signing the Association Agreement, Slovenia became fully included in the pre-accession strategy for the preparation of Associated Countries for EU membership and started to participate in the structured dialogue of the European Union with the Associated Countries of Central and Eastern Europe.

Slovenia has expressed its determination to acquire full membership of the European Union and the readiness for the long-term process of adjusting to the economic, legal, organisational and social structure of the European Union.

Full membership of Slovenia in the European Union is the priority of the Slovenian foreign policy as defined in the most important decisions of the Government and the National Assembly, and in the documents on the strategy and development of the Slovenian state.

2 EU ACCESSION

2.1 Two crucial documents towards full membership

2.1.1 Accession strategy

In line with this position and Slovenia's intention of an early and harmonious integration into the European Union, the accession strategy (IMAD 1997) very clearly defines the goals and the time framework of the integration. Furthermore, it defines the fields of approximation and the necessary reforms, and includes detailed programmes of activities for a successful implementation of the approximation process. The accession strategy presents in detail the measures and activities for the achievement of the objectives in line with the principal guidelines.

Operational goals contained in the accession strategy are:

1. to integrate into the European Union in the first round of enlargement;
2. to accomplish all necessary processes before accession
3. the structural adjustment to the requirements of the EU internal market and to common policies of the European Union, particularly:
 - to consolidate the micro- and macroeconomic stabilisation and the liberalisation and structural changes in all main strategic fields as defined by the Accession Strategy;
 - to harmonise the Slovenian legislation according to the requirements of the Association Agreement and the White Paper recommendations of the European Commission for the integration of the CEECs not only into the internal market, but also wider with regard to the remaining "acquis communautaire";
 - to meet gradually all convergence criteria necessary for subsequent integration into the Economic and Monetary Union.

- adjustment to the requirements for integration into the second pillar of the European Union, i.e. the common foreign and security policy;
 - adjustment to the requirements for integration into the third pillar of the European Union, i.e. cooperation in the field of justice and home affairs.
4. to carry out a thorough structural and functional reform of the public administration aimed at enhancing its efficiency and adjusting to the administrative structure of the European Union and its members;
 5. to inform the Slovenian public on the European Union, its composition and functioning, on positive and negative implications of the integration, and on the activities of the Slovenian government concerning the integration procedure.
 6. to define the organisational and coordination mechanisms for carrying out preparations for membership.

2.1.2 National programme for the adoption of the Acquis Communautaire (NPAA)

The Government submitted the NPAA (Government of the RS 1998) to the European Commission on 31 March 1998. This also marked the official start of Slovenia's negotiations for membership in the EU.

The NPAA is a response to the Partnership for Accession document, which represents a framework of short- and medium-term policies set by the European Commission as priorities for Slovenia's preparations for membership. It sets out policy directions and measures Slovenia has to implement to be able to realise its priority goals. It is therefore an operative document which, apart from strategic goals, defines the areas of reforms, macro- and micro-economic policy measures, development of judicial system, public administration reform, development of local administration, as well as an estimate of the staff and financing requirements for realisation of those reforms.

The programme serves as the basis for Slovenia's future decisions and directions. The NPAA has been prepared on the assumption that Slovenia becomes an EU member in 2002. This was, however, only an assumption on which medium-term policies were set out.

The table below is an extract of the NPAA's selected goals in policy of international economic relations.

Table 1 Goals in policy of international economic relations

Area	Objectives & targets	Policy directions and measures
General	<ul style="list-style-type: none"> ➤ Exploit static and dynamic gains from trade for faster economic growth ➤ Internationalise the economy in line with new determinants of competitiveness ➤ Increase the share of foreign trade in GDP, together with maintenance of external equilibrium 	<ul style="list-style-type: none"> • Adjust development concept, economic and legal systems to that of developed (EU) countries • Improve socio-institutional factors of competitiveness (research and technological development, innovations, education, monetary stability, social consensus, public debt management, etc.) • Improve competitiveness of the enterprise sector and diversify forms of international co-operation • Strengthen the existing and develop new competitive advantages
Foreign trade and customs regulations	<ul style="list-style-type: none"> ➤ Comply with obligations from international agreements ➤ Harmonisation with Europe Agreement ➤ Apply the Community's Common Customs Tariff, external trade provisions of the CAP and Community Textile Policy 	<ul style="list-style-type: none"> • Adapt tariffs, import charges, quantitative restrictions on imports and exports according to agreements (Europe Agreement, WTO, CEFTA, EFTA, bilateral agreements) • Provide measures for free flows of goods • Gradually reduce tariffs to their full elimination in trade with EU • Apply EU common external tariff on imports from non-members • Apply common quotas on the imports of textile and clothing products • Adjust preferential agreements with third countries after accession • Apply preferential trade regime to ACP States
Customs administration	<ul style="list-style-type: none"> ➤ Collection of duties, control of quality 	<ul style="list-style-type: none"> • Strengthen customs administration, human and infrastructure potentials
Technical barriers	<ul style="list-style-type: none"> ➤ Harmonisation with European standards 	<ul style="list-style-type: none"> • Adopt all European standards • Strengthen institutional framework, improve human skills • Separate regulatory, standardisation and product certification functions within the Standards and Metrology Institute
International organisations	<ul style="list-style-type: none"> ➤ Participate in and benefit from multilateral liberalisation within WTO ➤ Become a member of OECD 	<ul style="list-style-type: none"> • Adopt measures to assume obligations in WTO as a EU member • Prepare for the next round of WTO negotiations • Adopt measures to comply with OECD membership obligations

2.2 Essential changes of Slovenia's trade policy after accession to the EU

2.2.1 General effects on trade

In the field of trade relations, the potential positive effects themselves will not be particularly extensive (Commission of the EU 1996a). However, they should be considered in the light of possible negative impacts in the case of non-accession to the EU. We may expect that, if Slovenia does not join the EU, its position will be weakened in comparison to other states that will become members of the EU. With accession of new members, various limitations regarding the access to the internal market might put the Slovenian export economy in a much less favourable position.

Liberalisation of the trade in services would imply an increase in the service exchange between states, and bring about the right to establishment of legal and natural persons performing service activities in other countries. This will also imply an increased presence of service providers from EU Member States on the Slovenian market, particularly in the field of financial and business services. In view of accession to the EU Slovenia has, in comparison to larger economies, certain potential long-term advantages in a number of service areas. This presence of foreign service providers will stimulate competition and will favourably influence the improvement of quality, lower prices, and diversification of supply, as well as the use of new technologies and knowledge. Indirectly, greater competition will also positively affect the efficiency and competitiveness of economy in general. Adaptation to this situation will be the most complicated and costly in those fields that have enjoyed domestic commercial protection so far (for example telecommunications, transport services). Domestic service industry will have to be oriented towards those segments that request higher input of knowledge and information technologies. The service industry will have to increase its efficiency and competitiveness by establishing long-term strategic connections with partners from EU Member States.

The basic characteristics of sovereignty transfer are the following:

1. precedence of Community law over Slovenian law, in accordance with the subsidiarity principle;
2. respect and implementation of the common foreign and security policy;
3. acceptance of common economic policies (monetary and fiscal policy, commercial, agricultural, industrial and transport policy, competition policy, public procurement policy, etc.)

What has to be taken into account is the fact that even now Slovenia's sovereignty is not absolute, considering that, as far as policy-making, security and economy are concerned, Slovenia has to adapt to the existing political and economic situation.

2.2.2 Major policy shifts

Essential changes of Slovenia's policy of international economic relations after accession to the EU are going to be the following:

1. The main objectives of Slovenia's trade policy are going to remain unchanged: (i) to increase competitiveness of Slovenian companies in foreign markets and (ii) to preserve attractiveness of Slovenia as a business location for foreign investors.
2. With accession to the EU Slovenia will simultaneously become a member of customs union, what means that: (i) Slovenia should abolish existing trade barriers with partner countries in the time of accession and (ii) Slovenia should adapt its trade policy against third countries to the policy of the Union (that means adoption of common customs tariff as well as rights and obligations of the EU against third countries).
3. In the future, trade policy is going to be carried out at three levels: (i) national, (ii) European, and (iii) international (WTO, OECD,...)
4. As a member of the EU Slovenia is going to: (i) regulate relations with other EU-member countries by competition policy, (ii) regulate relations with non-member countries by trade policy.
5. At the level of the EU Slovenia should cede up the instruments of common commercial policy (CCP) to the Commission. EU competence for autonomous and conventional (trade agreements) trade policy is determined by the articles 113 and 228 of the Treaty of Rome: (i) Practical importance for Slovenia will have a loss of national sovereignty in the field of anti-dumping measures and trade agreements concluding; (ii) Article 113 relates also to trade in services, whereas the Commission has narrower maneuvering space, needing consensus of all member countries in the Council of Ministers (Europa 1998); (iii) CCP does not comprise trade with agricultural products (which is subject to Common agricultural policy), nor the transportation services (which are subject to common transportation policy).

In the Treaty of Rome, the CCP is not defined precisely. Article 113 lists only some of the fields "that should be performed on common basis". Instruments of PIER which should be ceded to the Commission in a framework of explicit external responsibility of the Commission are (Europa 1999a): (i) changing of custom duties, (ii) concluding of custom and trade agreements, (iii) unification of liberalization measures, (iv) export policy, and (v) trade protection measures (protection against dumping and subsidies).

European Court has decided several times for a dynamic interpretation of article 113: "Trade policy of the EU must correspond to a trade policy of an individual country in international relations. That

means that foreign trade policy of the EU comprises also aspects, not covered at the time of EEC foundation” (Europa 1999a).

2.2.3 Decision-making and decision-taking processes

Exclusive competence of the Community in foreign trade policy is restricted to trade in goods, where all decisions are taken by qualified majority (article 113). In other fields of foreign trade policy, such as trade in services or intellectual property protection, Community could act through common action only after such decision is taken unanimously in the Council of Ministers. Agreements must be ratified by all member countries individually.

The European Commission considers this fact as disadvantageous especially when negotiating on international level. It leads to delays that do not enable the Commission to play role of an equivalent negotiating partner. Thus, the Commission puts pressure to extend the article 113 also on other areas of foreign trade policy.

Slovenia as a full member of the EU will be able to influence the common commercial policy through the following ways:

1. The Commission is authorized for negotiations by the Council of Ministers. Individual member country exerts the further control over negotiations through Committee (article 113), in which every member country has a seat. The Committee is taking part in all negotiations with non-member countries. Although the Committee only advises, its role in practice is very important - it connects member countries on one side with negotiators from the Commission on the other.
2. In large number of routine matters, the decisions are taken at under-ministerial level, such as COREPER (Committee of permanent representatives of the member countries). These committee finally negotiates approximately 70 % of all Council's matters.
3. Through voting in the Council of Ministers where Slovenia's influence:
 - is going to be larger when decisions must be taken unanimously (e.g. association agreements, trade in services, protection of intellectual property);
 - is going to be lower when decisions must be taken by qualified majority (at present, the qualified majority amounts to 62 votes out of total 87);
 - is going to be the lowest when decisions must be taken by simple majority (at present 44 votes).
4. By indirect impact on decision-making in the Commission through European interest groups.

Through voting in the Council of Ministers, different coalitions could be built. They change from one voting to another. In spite of all that it is possible to foresee certain types of coalition:

- the coalition of small countries (e.g. Luxembourg, Ireland, Finland, Denmark, ...)
- the coalition liberally-oriented countries in foreign trade (Great Britain, Germany, Denmark, the Netherlands,...)
- the coalition of new members after the eastern enlargement of the EU (Poland would have 8 votes, Czech republic and Hungary 5 each, Estonia and Slovenia 3 each).

3. TRADE POLICY

3.1. Trade policy by areas

Free movement of goods

In this field, larger difficulties are not foreseen after adoption of the *acquis*. Slovenia does not use import and export restrictions, except quotas for import of certain textile products under ATC/WTO until 2005 as well as import and export licenses for specific products (Hoda 1994).

Trade and international economic relations

Legal order of Slovenia is already coordinated with the *acquis* to a high extent. The adoption of the *acquis* will thus not create substantial problems, except in trade relations with some countries established on the territory of *former Yugoslavia*.

Slovenia is a member of the WTO and has already adopted the majority of obligations, but:

- it has not acceded to Public Procurement Agreement, where it acts as an observer,
- it has not acceded to Civil Aviation Agreement nor to Information Technology Agreement
- Slovenia must, when preparing for the new round of liberalization negotiations, cooperate closely with relevant structures of the European Commission, in order not to give more favorable offers, which could create problems at accession to the EU.

Export credit system is in principle and to a large extent already coordinated with the OECD and EU rules. Thus, the adoption of the *acquis* will not create problems. Slovene export company already adopts standards of the Bern union and OECD.

Slovenia has concluded *free trade agreements* with 32 countries:

- With the countries established on the area of former Yugoslavia, Slovenia has more favorable trade regime than the EU.

- EU, on the other hand, applies more favorable trade regime for: 69 ACP countries; Malta and Cyprus (association agreement); Israel (free trade with cumulating criteria); Algeria, Marocco, Tunisia (asymmetric free trade with cumulating); Egypt, Jordan, Libya, Syria (asymmetric free trade); Albania (cooperation agreement).
- Slovenia should, when accessing to the EU, give up all relevant existing contractual obligations with non-member countries.

Import policy

For Slovenia, the autonomous measures in import policy are going to be very limited, if non-existing.

In comparison with the EU, anti-dumping procedures in Slovenia are used very rarely. Although, the maneuvering space of Slovenia for these are going to be substantially reduced. The anti-dumping procedure is refused, if the plaintiffs do not represent at least 25 % of total EU production of concerned product.

National import measures not carried out on borders, such as industrial norms, standards and public procurement allocation, are restricted by the EU legislation. Although some legal emptiness still exists. Health as well as security standards are not rarely excluded from existing harmonization or mutual recognition. Thus, they create maneuvering space for industrial policy in pharmaceuticals, machinery and food-processing industry as well as in medical equipment production (Brenton 1993).

Allocation of public procurement to foreign suppliers represents only a small percentage, what implies the priority role of domestic suppliers. It is a fact that the existing legal framework still enables favourizing of national suppliers. Thus, Slovenia must follow the development of GPA as well as activities of working group, conducting a study on transparency of public procurement praxis.

3.2. TRADE POLICY BY REGIONS

Countries in the area of former Yugoslavia

Comparative analyses of trade regime in the EU and Slovenia have shown that Slovenia would face serious economic problems after adopting regulation, stipulating relations between the EU and countries, established in the area of former Yugoslavia. Slovenia's trade regime with these countries is more favorable than the EU regime.

Stabilization and Association process performed by the EU in this region is going to last deep into time of Slovenia's membership in the EU. Thus, it will determine framework of further cooperation of Slovenia with these countries. *SAA - Stabilization and Association Agreements* which are foreseen by the EU, take into account individual situation of every single

country in the region (Bosnia Herzegovina, Croatia, Macedonia, FRY), offering them possibility of membership on the basis of Amsterdam Treaty, of course after Copenhagen criteria are met. SAAs bring new element in contractual relations between the EU and these countries, enabling countries without cooperation agreement new possibilities. To the countries which already concluded cooperation agreements and SAA respectively, (e.g. Macedonia) they enable higher level of relations.

Possible initiatives and activities of Slovenia in South-East Europe are based on the following advantages of Slovenia, when compared to the EU:

- better knowledge and understanding of circumstances in the region
- knowledge of local languages
- economic and other connections, established in the past
- inclusion of Slovenia in European structures.

Other regions

The EU signed some trade agreements with the *South-Asian countries* (India 1973; Sri Lanka 1975; Pakistan 1976; Bangladesh 1976). Economic interests of the EU in this region are marginal and would probably remain so in the nearest future.

Relations with *South-East-Asian newly industrialized countries* (NICs) were systematically settled by the EU in the 70's, when exports from this region threatened some sectors in the EU (textiles and clothing, shipbuilding, steel as well as some subsections of chemical and electronic industry). Answer of the EU was protectionist.

ASEAN countries are among major users of GSP of the EU since 1971. The EU also introduced cumulating principle for "origin of goods" in order to help ASEAN countries to act as a group in production of end-use products for the EU market.

Very important phase in relations with *the Mediterranean* represents a conclusion of cooperation agreements with Maghreb countries in 1976 (Algeria, Marocco, Tunisia) and Mashreq countries in 1977 (Egypt, Jordan, Libya, Syria). The Barcelona conference (November 1995; beside 15 members of the EU there were also 12 countries from the Near-East and Northern Africa) should lead to peace, prosperity and - until the year 2010 - free trade zone in the Mediterranean. The EU signed association agreements with Tunisia (July 1995), Marocco (December 1995) and Israel (December 1995) in order to promote trade and assistance. Association agreements with Egypt, Jordan, and Lebanon are in preparation. Accession of Slovenia to the EU should not have major impacts on trade with Turkey, since Slovenia already concluded free trade agreement with this country. The same it is possible to estimate for trade between Slovenia and Israel - with an exception of cumulating of origin which do not exist between the two countries. It is possible to expect an increase in trade

between Slovenia, Malta and Cyprus. The EU already concluded association agreements with these two countries, meanwhile Slovenia is presently negotiating only an agreement on trade and economic cooperation with Cyprus.

The U.S. represent the most important trade partner of the EU. The single internal market program launched negotiations in four areas: (i) reciprocity, (ii) national quotas, (iii) technical standards and (iv) competition policy.

Ministerial meeting between the EU and *Japan* (April 1996) created basis for closer economic and political cooperation. Japan recently started a special "deregulation" program, in which the EU sees a welcome opportunity for export of several goods with which the export success until now was very limited or none. The EU will further strive for more open Japanese economy what could create benefits for both sides.

Exports from the *ACP countries* (Grilli 1993) to the EU are free of custom duties, being at the same time protected through stabilization programs. The only exception represent sensitive agricultural products (e.g. sugar), which are regulated by quotas.

The Council of Ministers and the Commission prepared a joint declaration, with which the EU takes over directions of "post Lomé" conventions about free trade arrangements for all important products. In the year 2000, the Council and the Commission have started a process which should lead to free trade for products from developing countries until the year 2005. The basis for this process will be created by present stipulations of Lomé convention. In this way the rules of origin as well as cumulating will be renewed and simplified. For Slovenia, the experience of Denmark and Ireland is very interesting, since these two countries have increased their export shares in ACP countries after EU accession significantly. This improvement could be a result of rules of origin, MFN status, developmental aid or simply positive attitude for EU products in the ACP countries.

3.3. Trade policy by sectors

In respect with sectoral policies, Slovenia will be in the following position:

Civil aviation

In this sector, the European Commission has exclusive competence for regulating bilateral and multilateral sectoral policy (Baldwin and Flam 1990).

Textiles and clothing. Slovenia will have to perform:

quantitative restrictions against the following WTO member countries: Argentina, Brazil, Hong Kong, India, Indonesia, Macao,

Malaysia, Pakistan, Peru, Philippines, Singapore, South Korea, Sri Lanka, Thailand (Glissman 1996).

administrative agreements with Bangladesh, Mongolia, United Arab Emirates, as well as with all WTO members, whose imports to the EU are subject of double controls without quantitative restrictions.

bilateral agreements with the following WTO non-member countries: Armenia, Azerbaijan, Belarus, China, Estonia, Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Laos, Latvia, Lithuania, Moldova, Russian Federation, Ukraine, Uzbekistan, Tajikistan, Turkmenistan, Vietnam. In the framework of bilateral agreements Slovenia should perform quantitative restrictions for Belarus, China, Ukraine, Uzbekistan and Vietnam.

autonomous use of quantitative restrictions for Bosnia-Herzegovina, Croatia, FRY, Taiwan and North Korea.

Electronics.

At the moment, the future sectoral policy is not completely defined.

Non-ferrous metals.

Trading with metals is subject of trade rules within the *WTO*.

The Commission is allowed to negotiate about *bilateral and multilateral* international sectoral *trade agreements*.

Iron and steel.

Import of iron and steel products from all countries, except Russia, Ukraine, and Kazakhstan, is not subject of *quotas or similar restrictions*.

The only used measure in trade with these products in the EU is *prevention control*.

Imports of steel products is based on preferential bilateral agreements, general system of preferences or custom duties, imposed by interim agreements.

Chemistry.

In this area, the EU trades very liberally with majority of countries which enjoy free or favorable access to the EU market.

Engineering.

Trade with these products is subject to *WTO* rules.

4. IMPLICATIONS FOR SENSITIVE INDUSTRIES - THE CASE OF TEXTILES AND CLOTHING

4.1. Macroeconomic measures

4.1.1. Impacts of trade policy on textiles and clothing

Commercial relations in textiles and clothing of EU are mainly governed by the *WTO Agreement on Textiles and Clothing (ATC)*, which provides for the progressive application of the entire range of GATT rules to the sector, including the gradual abolition of all remaining quotas by 1 January 2005 (European Union 2000).

On the date of entry into force of the WTO agreement (1995), each Member had to integrate into GATT 1994 rules products accounting 16% of the total volume of the Member's 1990 imports. On 1 January 1998, Members of the WTO eliminated restrictions for another 17% of their 1990 imports, and the third stage of integration - covering 18% of 1990 import volumes - will have to take effect on 1 January 2002. Finally, as from 1 January 2005, all restrictions under the ATC will be eliminated.

Against non-WTO members EU applies quotas for the import of particular textile and clothing products under *bilateral agreements* (European Commission 2001). However, many third countries enjoy tariff-free access to the EU market, either under the various preferential trade agreements, or under the Generalised System of Preferences (GSP). The list of GSP beneficiaries comprises some 150 countries, 48 of which have been identified as least developed countries. These countries are subject to a surveillance regime (the so-called »double-checking« system), which in principle do not provide for any quantitative restrictions.

Therefore, it is possible to say that most of quantitative restrictions in trade with textiles and clothing will be abolished on 1 January 2005. Slovenia has to be prepared to confront with such keen competition in this branch, especially due to the essentially higher share of employees and exports of this branch in the manufacturing activities of Slovenian industry and it's higher regional concentration. Both the Slovenian government and the branch companies have to make adjustments to prepare for these changes in operating environment.

It is up to Slovenian government to assure the macroeconomic environment for the operation of the branch. From amongst 31 necessary fields of conformation of Slovenia to EU, the ones that are the highest importance for the branch are the following: social policy and employment, competition and state aids, regional policy, environment and science and research.

In the field of *social policy and employment* Slovenia has to harmonize its jurisdiction with the EU's until the end of 2002 (Government of RS 2001). The branch will be affected by the legislations of working law,

employment and european social fund and social security of disabled persons.

Justified request of the branch in the field of social policy concerns lowering of the contribution level of the social security and increasing of the mobility of workers according to the new Law on Working Relations (IMAD 1998). By implementing the planned reform of the system of social security towards the fiscalisation of social security, the state is responding to the demands of companies for lower wage burdening. Fiscalisation of social security foresees lowering of the contribution level for social security from wages and increasing the level of coverage for social security from taxes. Higher taxes would not be payed only by companies through VAT, but also by the entire population in relation to the purchase power (voluntary social securities).

Under the new Law on Working Relations which considers directives of EU, the flexibility of the labour market should be higher. Time frame specified for giving notice should be shorter, costs of dismissing from employment should be lower and this is expected to prevent employers from being too cautious in their hiring practices.

In the field of *competition and state aid*, Slovenia has fulfilled its obligation by preparing the Programme for restructuring of the branch untill the end of 1999 (Government of RS 2000a). The programme foresees state co-financing of development projects in the field of marketing, technological modernisation and development of human resources. It represents the state aid into so-called »soft production resources«, which is in accordance to the industrial policy of EU.

Legal basis for state aid will be the Law on Prevention of Restricting of Competition and Law on Economic Zones. Slovenia will implement state aid through economic zones as an element of regional policy, especially policy of stimulation employment within regions with unemployment level above the national average.

In the field of *regional policy and development*, Slovenia has to complete by the end of this year the State development programme till 2006 as the basis for inclusion into the system of EU structural funds (IMAD 1998).

In the field of *environment* pertaining to the branch is the conformation of »manipulation with packaging« (Slovenia demands transitional period of five years from the day of foreseen accession to the EU), conformation of »communal waste-water management« (transitional period of ten years) and conformation of »prevention and control over industrial pollution« (transitional period of four years) (Government of RS 2001a).

In the field of *science and research* Slovenia is conforming by means of preparing incentives for the companies for re-introduction of R & D

divisions in the branch companies. These incentives range from call for applications for young researchers from entrepreneurial sphere to co-financing of operation of technological centres in the branch.

Except for the abovementioned necessary macroeconomic steps for stimulating competitiveness of this branch, the following activities of the state are important as well:

- Assurance of suitable legal framework for increasing financial discipline,
- Investigation of possibilities to lower interest rates (high active interest rates act as a big limitation in raising loans) and faster opening of the banking market,
- Fulfilment of remaining three (monetary) convergence criteria, that are required for the acceptance into the monetary union,
- Definition of the concept of unfair competition in the branch and introduction of the system of non-customs protective measures for the branch.

4.1.2. Harmonisation and adoption of legislation in accordance with secondary legislation of EU

In negotiation basis for the field 1 – free movements of goods – Slovenia has binded up in the textile field to carry out technical modernisation of infrastructure for controlling and executing of harmonised regulation (Government of RS 2001).

Slovenian Government and the branch companies have to strive to realize the following proposals:

1. establishment of unified data basis of technical regulation for the branch,
2. implementation of necessary changes within the companies, due to the changes in technical regulations: new instructions for necessary changes in specified procedures, new control methods for execution of required changes, additional training of employees for execution of required changes,
3. definition of measures of Disloyal Competition in the branch with the goal of defining a suitable non-tarif protection of the branch,
4. introduction of efficient system of control of executing technical regulation.

4.2. Microeconomic measures

In spite of importance of the role of the state at active conformation of the branch to the new circumstances in international environment, it is easily understood that companies alone will be responsible for their results of operation.

Above all, companies have to be aware that their operation can not be based on cost advantages anymore, since in this respect they face strong competitors from some neighbouring countries as well as some more distant countries. Competitiveness based upon low labour costs is not acceptable because of characteristics of small economy (modest extent of production resources, high burdening of wages, social security and government) (Senjur 1996). Orientation towards quality as a competitiveness factor, is today more than ever essential for a successful internationalisation of companies.

In contemporary competitive markets in the branch the companies have to fulfil the following goals¹:

4.2.1. Implementation of effective production and administration

Effective production and administration is prerequisite for successful realization of other company's activities. To achieve this goal the branch companies should consider the following proposals:

1. To analyse processes in production and administration and compare them with the more successful companies at home and abroad. It is a question of »business re-engineering« and of »benchmarking« of processes. Generally the main goal of business re-engineering is cost reduction, at the same time it teaches people to contemplate eventual changes in companies. It is important that lower management takes part in decision-making on necessary alteration in companies, but leading and middle management ensure the basis for comparison and propose necessary fields of changes.

2. The motive and starting-point for changes should be results of regular comparative analysis, respectively benchmarking as a tool for assessment of progress and estimation of a company's condition in comparison to related market leaders at home and in EU. Benchmarking results indicate the position of companies in comparison to the competition and ease deciding on necessary changes.

3. Basis for process analysis in production and administration are good quantitative and qualitative data bases on the course of particular functions of business process.

4. Inclusion of all employees in the process analysis and appointment of process leaders who supervise the state of particular process and draw proposals for improvement.

1 Statements are based upon comprehensive analysis of slovenian textile and clothing branch (562 companies have operated in the branch in 1999); entire analysis can be found in Master Thesis »Strategy of Conformation of Slovenian Textile and Clothing Industry to the European Union« (Korez Vide 2001).

5. In the administration it is necessary to continuously analyse the course of processes as well as their effectiveness continuously (export effectiveness at each market, the relevance of distribution process, sale profitability, purchase effectiveness, borrowing of loans, the sale of claims)
6. Consideration of the »just in time« concept requires optimal organisation of purchase, production and sale.
7. Process leaders should gather information on comparable companies through technological centres and branch association. The best source of information could be the customers and the suppliers of the company, with whom the company should build a partner-relationship.
8. The previous point suggests the need on introduction of timetable of regular, periodical and urgent visits of company's management to the companie's customers and suppliers.
9. Getting acquainted with achievements of research activities of universities, institutes and technological centres; results of investigation should be included into the companie's own operation. The state that the branch is in, lowers the relevance of academic programmes at slovenian universities, therefore it is necessary that companies get in contact with with foreign institutes that are occupied with R & D activities in the branch.
10. To alter the rigid organisational structures of companies which do not assure control. Top management has to devote attention to strategic decisions instead of to the operative ones. Responsibility for operative decisions should be assigned to relatively independent units in the company which can be founded on the basis of production processes (low management). Middle management should perform advisory function and top management should devote it's time to the performance of the whole company.
11. To strive for introduction of quality standards into the operation of companies, since they raise knowledge and awareness of employees on necessary changes in companies.
12. Stimulation of requalification and additional training of employees accordant with their responsibilities.
13. To change the culture of companies: to raise the motivation of employees, to raise the sense of belonging to the company, to improve the company's »climate« and to continuously stimulate the awareness of the company's goals.
14. To achieve the effective production and administration, the characteristics of top management are important above all. They have to strive towards self-improvement and their relation to the environment. Only after that has been achieved they can lead the company successfully.

4.2.2. Productional-technological modernisation of companies

Products being produced and technologies being used have to be in accordance with market needs. Companies have to study the following proposals:

1. Decision on the product to be produced and its marketing should base upon market analysis; companies have to use services of technological centres, universities and institutes.

2. Analysis of profitability of each product and elimination of products which do not assure the economy of scale and bring too high losses (the need for specialisation). Only where specialisation exists, there is own development and there could be development possibilities of technologies, knowledge and specialised programmes enforced. Each company in the branch should know its own specialised programme-technological field and should be able to market it.

3. Production relocation of products that still have their markets and would become profitable with reducing of costs (in choosing markets for production relocation companies should take into account the labour costs, market size and market's potential).

4. Transition to development of more advanced types of contraction business; Slovenija does not possess competitive advantages for lohn business anymore, therefore it has to evolve to a more advanced type of business and abandon lohn business.

5. Introduction of international quality standards into companies which give us opportunity to evaluate costs and benefits of each product, the amount of resources needed for technological modernization of products, the opportunities for marketing these products and technology-development lagging.

6. Introduction of contemporary methods of accounting and costs-control (controlling)

7. Collecting of information on consumer trends of defined products and on their characteristics – comparison of costs and benefits of product adaptation to the customers needs.

8. To get acquainted with novelties in the field of designing, characteristics and technology of products and evaluate the feasibility for their realization; improve knowledge in the field of product development, introduction of automatization systems in the production process.

9. To apply for government calls which support developing-technological conformation to EU.

4.2.3. Development of own system of competitiveness factors

As we have already stated textile and clothing branch can not build the strategy for higher competitiveness on low labour costs. Companies have to develop their competitive advantages and make them long-term. They should develop their own system of competitiveness factors, one that is not based on external-given factors (wages, social contributions, exchange rate, interest rates). In building this system they can implement best business practices by the most successful company in slovenian textile industry, at the same time they could add their own potential ways of reaching higher competitiveness.

Fundamental success factors for a market leader in the branch are the following (Popović 2000):

- Orientation towards aggressive marketing (continuous interest for customer's needs and wishes – often personal communication),
- Orientation towards creation of company's own system of quality (determination of criteria for quality of all functions in the company, not only producing the product),
- Orientation into the customer means excellent service. It is not enough that the company fulfils needs and wishes of the customer, it has to anticipate the customer's eventual needs and propose them to the customers. The company has to be a step ahead of the customer's needs.
- The company has to be flexible – it has to fulfil supplying terms.
- Permanent improvements and innovative activities on the product: customer expects continuous cooperation in the sense of improvements of the product and therefore lowering of the costs.
- Under development of suppliers the company understands the development of a partner-relationship with the supplier. This relation comprises good knowledge of the supplier and his needs.

4.2.4. Strategic linking of companies

High concentration in slovenian textile and clothing industry with the company »great leader«, some middle companies and numerous small companies, enables introduction of vertical and horizontal networks between companies in the branch (CIC 1999).

»Great leader« and middle companies link vertically into s.c. spinal networks – The big company forwards a part of operation and controls development, marketing and promotion activities (Smole 2000). In the clothing industry, where the production cycles have to be shortened continually, vertical integration between design centres, spinning mills, weaving mills, ready-made departments and merchants is possible.

Small companies link horizontally – Key functions are either taken over by a technological centre, or companies distribute these key functions among themselves in accordance with capabilities.

Textile and clothing companies could also link into s.c. clusters – these combine companies from different groups in the branch or companies from different branches. Interesting cluster is »fashion industry«, which combines textile, clothing, shoe, cosmetic industry and industry of fashion supplements.

Vertical and horizontal links and linking into clusters enable optimal organization of all functions in companies and therefore lower costs, efficient marketing and purchase, technological-developing modernisation and a more efficient requalification of employees.

Since the positions of the branch companies are very heterogeneous, for the successful linking have to be considered the following proposals:

1. Before making a decision to link, companies have to know circumstances in the company and their position at the market;

2. The companies should search for possible synergies of linkages, the key role can be assumed by supporting organizations, which are financed by the state or by companies alone (technological centres, branch associations)

3. Instead of pursuing lohn business, companies could develop higher forms of cooperation with parity of participants in the business – they could develop strategic partnerships with european companies;

4. Linkages between companies can be horizontal and vertikal. Horizontal linkages bring to companies better information in the field of technological news, organization of production and new technologies, improve marketing and development activities of companies. It is practical the mutual linking that provides opportunities for the companies to acquire greater extent of business and therefore better negotiation position than each company alone.

5. Especially important are good vertikal linkages between companies (supplying chain), except for horizontal linking. All in supplying chain have to be aware that the success of whole business depends on the strength of each link. They get stronger chain with linking.

6. Linkages could evolve further to the field of common marketing of products, to the field of purchase of material and raw-material and to the field of development of products; long-term capital linking could be developed. Since the branch in average is import-bound, the advantages of common organisation of purchase is even greater.

Advantages of linking of companies in the branch are the following:

- Companies can market their products efficiently: small companies are specialised and in linkage with other companies can run common promotion actions and benefit from common distribution channels. Advantages come from common purchase, where linked companies due to greater quantities achieve lower purchase prices (Smole 2000).

- Companies can produce cheaper together: they could divide the order and execute it with lower costs.

- Small companies in connection with others could compete successfully for higher orders, which they could not receive alone.

- Through linkages companies develop knowledge, acquire information, expand the circle of business partnerships and look for new targeting groups.

4.2.5 Analysis of export efficiency, structure of export markets, and possibilities for diversification of international business operations

Market appearance of the companies should base upon analysis of three main questions: where, how, at which price. The companies have to study the following proposals:

1. Companies have to strive for high export prices respectively at least average prices in the branch in selected markets. To achieve that they should perform market research analysis, which assesses average price level, compatibility of the product with import demand, market shares of competitors and export potential of these markets.

2. In the long-term, companies can not conduct the strategy of cheap export in order to make good use of production capacities, as the reasons for cheap export are quickly demonstrated. In case the reasons are in too small technological completion of products and in their low quality, market share starts to decrease. Thus the companies have assured only survival instead of development. Slovenian companies and the branch analysed have to strive for profitable sale especially for the reason that in average, they could only achieve small market shares in export.

3. Why can EU countries in average achieve higher export efficiency respectively higher export prices ? Main reasons lies in building their market position for many years: exact knowledge of customer's demands, higher technological completion of products, qualitative service to the customer, building of brand name recognition, promotion activities, improvement of productivity, lowering of costs etc. Actually these factors are not new, difference is in the fact that succesful companies have implemented them consistently, and thus have enabled their own further development.

4. Companies should have good knowledge of markets before a decision for export is made, and decrease marketing of their products through mediators, who often do not provide correct information about the state of the market.

5. Despite difficulties in the export the companies in the branch should internationalize, but as the basis for their growth they will less and less be able to depend on small local market, which is going to be increasingly open and therefore even smaller.

4.2.6 Development of quality control

The branch companies should follow contemporary levels of quality management. Proposals:

1. Companies should gradually pass over to more demanding levels of quality control (quality assurance, total quality control); they should start introducing the quality standards, form a team to prepare documentation for standard adjustment and to educate employees on importance of quality assurance;

2. Abovementioned team and leadership of the company should encourage and follow the change in the mentality of employees in the direction of higher quality of operation; system of quality assurance should not end with certification, but should proceed with numerous target actions in the direction of total quality management.

4.2.7. Costs reduction

Companies can lower costs of material and keep the same quality of products by linking of purchase functions of different companies.

Lowering of costs for stock-keeping depends on promotional efficiency and mastering of home and foreign markets. State could help them partly (help of technological centre or co-financing of development projects),

Labour costs (R & D function) could be lowered by state co-financing (companies would redirect employees in R & D function for some years), by OPT and by different forms of flexible employment in accordance with new labour legislation.

Companies in textile and clothing branch should strive for a status of »development supplier« in OPT, since by acquiring such status, they would have essentially higher opportunities for lowering of costs. In addition to that they would have to proceed with transfer of production to countries with lower labour costs.

4.2.8. Increasing labour productivity

In order to raise labour productivity and due to greater pressure on prices, lower critical number of employees and limited influence on the price level of raw materials, companies would have to decide upon changes in the production and administration organisation, investments into maintenance of machinery, re-qualification of employees, quality assurance of all processes, partnerships with customers and suppliers, companies cooperation and for rationalization in production and administration.

To raise labour productivity in the branch, higher investments in technological development of products are especially important. Companies have the opportunity to use state aid from the Programme of conforming of the branch to EU for the period 2000 – 2003 and professional help of technological centre (the goal is to achieve higher technological completion of the product, higher price level and higher added value).

Technological centres offer support to companies in the form of preparing documentation for development and preparing of documentation of state aid calls.

Except of higher technological completion of the product, maintainance of machinery is also important. Companies could gain funds for these activities by selling of superfluous production capacities in accordance with programme restructuring. At the same time it is necessary to reach optimal number of employees and enable further development and growth of the company. New labour legislation will offer different forms of flexible employment.

Important data for judgement of company's international competitiveness is the so-called efficiency wage – wage per employee in comparison to labour productivity.

Concept of efficiency wage is important, since companies to often criticise the extent of taxes and contributions on wages and do not consider the need for raising of labour productivity.

4.2.9. Searching for new market niches in textile and clothing industry

Textile market is relatively homogenous and segmented with few market niches. It is necessary to concentrate on the search for new market niches which appear slowly (technical, ecologically impeccable textiles). In the near future the new market niche could be marketing of own trade marks. These become known by raising of market share with excellent products. The most important demand for achievement of higher competitiveness is development of slovenian trade marks. Hence it follows that research work in companies should comprise not only technological but also marketing point of view.

Slovenian clothing industry is able to produce qualitative and fashionable clothes for most demanding customers (Pevc 1998). Basic orientation of companies should therefore become production of clothes for high price range and eventually higher part of middle price range. Proper trade marks are just the right means for competitive struggle in these price ranges. An interesting model of conquering new markets in clothing industry is also the transfer of technology to developing countries. That model would open these fast growing markets.

Promotion and other marketing activities in clothing industry have great influence on the market which is segmented by advertising. Moreover up-keeping and ecologically impeccable materials for clothes are also important factors in this industry.

4.2.10. Cooperation with branch technological centres

Three technological centres operate in this branch (Gra iè 2000):

- Industrial development centre of spinning industry
- Industrial development centre of measured textiles
- Industrial development centre of clothing industry

According to the »Book of rules on infrastructural development centres« functions of these centres are the following:

- R & D activities for the brach and individual companies
- Assistance with completing application forms for public competition
- Performance of measuring and testing
- Informing of companies and help with introduction of novelties from the field of research
- Publicistic activities
- Conduction of training for the branch's employees.

Companies have possibility to use all above mentioned functions of centres and look for new possible forms of cooperation. Centres offer to companies opportunity for better information flow and companies would have to make good use of this opportunity.

5 CONCLUSION

With accession to the EU Slovenia will simultaneously become a member of customs union, meaning that Slovenia should abolish existing trade barriers with partner countries and that it should adapt its trade policy against third countries to the policy of the Union.

The main objectives of Slovenia's PIER are going to remain unchanged: (i) to increase the competitiveness of Slovenian companies in

foreign markets and (ii) to preserve attractiveness of Slovenia as a business location for foreign investors.

PIER comprises - besides conventional foreign trade measures - also a conglomerate of home (complementary) policies with increasing importance in international competition. In the future, PIER is going to be carried out at three levels: national, European and international (WTO, OECD,...).

As a member of the EU Slovenia is going to: regulate relations with other EU-member countries by competition policy, and to regulate relations with non-member countries by trade policy. Slovenia should cede up the instruments of common commercial policy to Brussels. Practical importance for Slovenia will be caused by loss of national sovereignty in the field of anti-dumping measures as well as concluding trade agreements, what will have a considerable effects on trade with countries in the area of former Yugoslavia.

Article 113 relates also to trade in services, whereas the Commission has narrower maneuvering space, needing consensus of all member countries in the Council of Ministers. CCP does not comprise trade with agricultural products (which is subject to common agricultural policy), nor the transportation services (which are subject to common transportation policy).

The Slovenian textile and clothing industry will successfully adjust to the requirements of the European Union if the Slovenian macroeconomic policy will be modified accordingly. For the branch it is most important to adapt in the field of social, competitive, trade, environmental and monetary policy. These fields offer companies a good basis for the creation of consolidation measures for their operation.

The branch companies will have the possibility to benefit from the governmental Programme of conformation of the textile branch to the European Union for the period 2000 - 2003 and adjustment of Slovenia to the European Union. This period will differ from the period of transition in that the market will award only the companies that will be able alone and with the offered incentive of the Government to prepare themselves for the new keen competition and new opportunities of Slovenian membership in the European Union.

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LIBERALIZACIJA WTO-a, PRISTUP EU-u I OSJETLJIVE INDUSTRIJE - PRIMJER SLOVENIJE**Sažetak**

Slovenija će, pristupom Europskoj uniji, istovremeno postati i članom carinske unije, to znači da će sadašnje trgovinske barijere sa zemljama-partnerima trebati ukinute i da će se trgovinska politika prema trećim zemljama trebati prilagoditi politici Unije. Slovenija mora priznati instrumente politike zajedničke trgovine. Za Sloveniju će gubitak nacionalnog suvereniteta na području anti-dumping mjera kao i pri zaključivanju trgovinskih sporazuma, to će imati velikog uticaja na trgovinu s državama bivše Jugoslavije, biti od praktičnog značaja.

Sukladno rezultatima urugvajskih pregovora, većina kvantitativnih ograničenja u trgovini tekstilom i odjećom će biti ukinuta 1. siječnja 2005. Slovenija mora biti spremna suočiti se s o trom konkurencijom u ovome području poglavito zbog bitno većeg udjela zaposlenika i izvezene robe iz ovog područja u proizvodnu djelatnost slovenske industrije i njene veće regionalne koncentracije. Slovenska vlada i tvrtke moraju istovremeno izvršiti prilagodbe kako bi se pripremile za ove promjene u radnom okruženju i dovršiti sve potrebne procese prije pristupanja unutarnjem tržištu i zajedničkoj politici Europske unije.

Ključne riječi: trgovinska politika, WTO-Svjetska trgovinska organizacija, pristup Europskoj uniji, osjetljive industrije.

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