

# Central European Gateway

*After an initial transitional recession, Slovenia succeeded in reducing the inflation rate and regained economic growth. The country's GDP is above 33 billion euros with purchasing power per capita over 22,000 euros. Peter Ješovnik, director of Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments, points out four reasons to invest in Slovenia—quality workforce, quality infrastructure, quality links to the regional markets, and quality of life.*

## What is driving economic growth in Slovenia?

Slovenia is a small country with a territory of 20,000 square kilometers and a population of just two million people. Its language and identity have been around for centuries. We are proud that we were able to create an independent state 17 years ago. In 2004, the country joined the European Union and in January 2007 it was the first to introduce the Euro among the new 12 member states.

Slovenia was successful in its transition from socialism to a market economy. For the last 17 years, we have had a very hectic development. Slovenia as a part of former Yugoslavia was probably the only of all CEE countries, which opened its economy to the OECD markets in the sixties. That is what other countries like Czechoslovakia, Hungary or Poland were not able to, but Slovenia has built partnerships. That was our advantage in the beginning of the 1990s. And we also had a different model of reorganization and privatisation which for the time being proved to be very successful, but has to be readopted to meet the challenge of the globalization. That is why we need to further encourage structural reforms and to implement a second wave of privatization in order to establish more effective ownership structure and become more open

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society. The value of being an entrepreneur or having your own companies was not common in the 80s, so we had to make a transition in how to prioritize our economy. Ten years ago most of our goods were sold to former Yugoslavia, so we had to find new markets.

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## What are the primary reasons to invest in Slovenia?

There are several reasons to invest in Slovenia. The first is quality workforce, well-educated and industrially minded. We believe Slovenia has the right balance between price and productivity. Today, 70% of the young generation is going into the higher education institutions and getting a higher education diploma. In the last few years, we have tripled the number of students in the higher education process, and we are working on the structuring of our higher education, since the higher education and businesses should get more connected.

The second reason is the quality infrastructure. In the past decade, Slovenia has made quite extensive investments in the infrastructure. We are particularly fond of the V. corridor from Lisbon to Moscow. And the corridor X. which goes from Hamburg to Istanbul also crosses Slovenia. So it is obvious



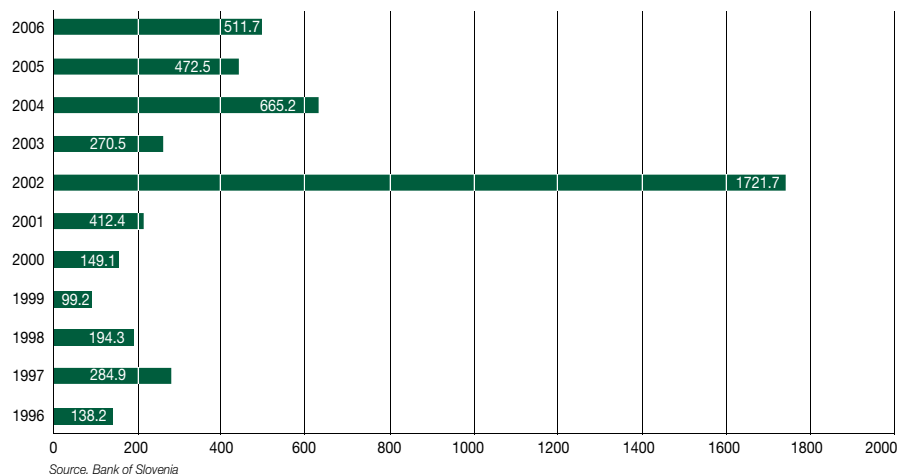
**PETER JEŠOVNIK** has served as an acting director of Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (JAPTI) since 10 May 2007. In November 2007 the government appointed him for a five-year mandate. Between 2005 and 2007, he worked as Deputy Director in the Government Office for European Affairs.

Ješovnik is a master of science in international economy. After his graduation he took duties as Assistant for marketing and macroeconomic environment at the Faculty of Management in Koper. In the following four years he advanced to the post of Senior Lecturer and published a number of scientific articles. Following his work in the academic sphere, Ješovnik was employed in 2001 by the Chamber of Commerce and Industry of Slovenia where he managed the Department for European Affairs. In this capacity, he published several business guides. He actively participated in the work of the national forum within the Convention for the Constitution of the EU.

Ješovnik is a member of various councils and boards; recently he was elected in WAIPA (World Association of Investment Promotion Agencies) Steering Committee for the period 2008 to 2010.

## Foreign Direct Investment - Inflows in Slovenia

In EUR Million, 1996-2006



that we have a really good position on East-West and North-South transport connections. Our transport connections are very good in all directions, and the Port of Koper plays significant role in providing shortest maritime transit route between the countries of one of the most competitive Central Europe and crucial markets of the Middle and Far East. We have every possibility of becoming Europe's logistic and transport centre. Nevertheless, competition around us is great, so we need to specialize.

The next reason to invest in Slovenia would be the quality links to the regional markets. Seventeen years ago we were perceived as a small market, but after the Slovene EU accession, the potential is opening – our reachable market suddenly became much larger and we are no longer limited to a market of 2 million. Our capital, Ljubljana, is geographically located close to 50 0 million consumers in Europe in all directions. This makes Slovenia very central for foreign investment to serve the emerging markets on the Balkans at

reasonable overall business costs. So what I am saying is that Slovenia is not only in a good infrastructural position, but it is also surrounded by markets for which Slovenia can represent a useful hub. I even see Slovenia within its geographical neighbourhood as the most competitive country after Austria, taking Slovenia's latest national standards into account, such as e-business or e-government.

The final motivation is the quality of life. Slovenia is easy and safe to live in. We have a very good system of healthcare and education. As a whole, living in Slovenia is less expensive than in the rest of Western Europe.

And last but not least, business risk evaluations present Slovenia as the lowest risk country of the Central and Eastern European transition countries. So Slovenia's open-minded business environment offers great opportunities for investment.

Strong commercial contacts across Easter and Southeastern Europe, excellent infrastructure, a major Adriatic port, and a highly educated work force have attracted many foreign companies to enter Slovenia,





for example Bosch Siemens, Danfoss, IBM, Microsoft, Sandoz Group (Novartis), Oracle, Renault – to mention just a few.

In the 90s, Slovenia was not attracting a lot of foreign investment. One of the reasons was that the privatization system focused on domestic ownership. The last government was very reform-oriented and we began to privatize more intensively. There were new tax reforms and the labor market is still being reformed.

### **How has economy changed in the last five years?**

Due to its traditions, Slovenia has an industrial society. A lot of industrial suppliers in Slovenia are positioned in the automotive, machinery, chemicals, manufacturing, and logistics sectors. They are major suppliers to the European car manufacturers. Then, there are also medium-sized companies that are niche players. Some of the production companies in Slovenia serve European, Brazilian, Asian, and North American markets. However, the share of the industry in our GDP is declining and the share of services is becoming more and more significant. The share of agriculture is approximately 2% in our GDP. Therefore, it is our policy to be a knowledge-based society. Still, we are aware that we have to become a service society.

Currently, we are working on the structure of tourism, high quality services, and attractive prices. Transport and logistics are very important for us because of the investments in infrastructure, the country's strategic position, and the existence of a sea port. Another sector of primary importance for Slovenia is banking and finance.

### **What are the potential problems for the foreign investor?**

Some potential problems are ecological, energy, and labor intensive investments. Because we are a small nation, the employment of several thousand people would be a strain for our labor market. We could say that our workers are not

so mobile as for example in USA, and we also have quite rigid labour law, that should be loosen. The fact is that our country has a quite high prices of land, and we do not have enough industrial sites – huge challenge are economic and logistic growth centers, which are part of long term Government strategy of economic development of Slovenia (Development Projects of Resolution 2007-2023). Foreign investors noticed also administrative barriers, regarding mostly opening companies in Slovenia, employing foreign labor force etc. that should be removed. And even though we have favorable tax law for foreign investors, we could probably stimulate them even more with tax relieves for investments with higher value.

By entering the EU, we would like to become a hub on the back of a developed infrastructure, the port of Koper, and the well-educated workforce. With the price of the workforce in place, we realize are not very labor-competitive, and consequently we focus on transport and logistics to meet the goal of being a hub in the region.

Slovenia has created its own national development resolution, already mentioned before, which is effective until 2023. In this resolution, we will co-finance nine business logistics zones with the EU structural money up to 40%. Our plan is to make a non-economic zone that will have a production site, logistics, supported by governments that will build incubators, technological parks, and some higher education centers. We are searching for private investors who can run these zones because we want market forces to drive them and to turn them into a hub between Central Europe and North America, Brazil, Arabia, India, and China.

If people from Asia use the Southern route, it is five to six days shorter than the Northern route and it is cheaper too. However, those are global processes. It is not that easy to organize yourself to become appealing to trade and investment flows going into European countries. We

would like to run this economic zone in a public/private partnership and prefer to have a company from Brazil, or Asia to run this zone. They will be better at attracting local companies to the zone. Out of these nine zones, our agency already started opening two earlier this year.

We have one instrument to attract foreign investors, Public Tender for FDI Cost-Sharing Grant Scheme. Foreign companies making direct investments in Slovenia may apply for financial grants. The purpose of the Invitation for Applications is to boost attractiveness of Slovenia as a location for foreign direct investment by lowering entry (start-up) costs to the investors an offering them financial incentives up to 30 percent of the investment.

However, if you make an investment of over 50 million euros, according to the EU regulation, you have to do it in a different way. In such cases, we summit a negotiating committee at the agency to prepare all the documents together with the investor. Then, this goes to the Cabinet of the Prime Minister, and the government meets for approval.

Let us glance at the statistics: we get approx. 600 inquiries per year and about a hundred of them come to Slovenia only to see and check the situation in the field. Last year approx. 30 companies applied for a grant. And if you look at the range of these investments, you will see that they go from 2 to 13 million EUR and that they employ from 10, 20 to 250 people. So these are definitely small and medium-size investments. And the total inflow of FDI in Slovenia significantly increases every year.

### **Do you have any business with Croatia?**

Croatia is our third most important business partner. We export to Croatia more than 1.5 billion euros, so, obviously, it is a good trading partner, although they are still not part of the EU. The country has sold many of its industries to foreigners, including Slovenia. Croatia's EU integration will probably take some more years, which

means a more restrictive border control and a different currency. Nevertheless, we were living together in former Yugoslavia and the languages that we speak are very similar, and we also know their way of doing business. So for Slovenians it is very natural to go to Croatia and do business there.

The unemployment rate is falling. Five years ago, it was 10% while currently it is down to 5%. Today, out of two million people, 63,000 are registered as unemployed, and nearly one million are employed.

Slovenia currently faces two problems. First, around 550,000 of the two million people are retired. In the 90s we went through the most difficult economic period. Since we wanted to keep consensus in our society, it was decided that people at the age of 54-55 and, in some cases, 52, could already retire. This has all changed now, because it was politically wise to have retired rather than jobless people who would never be employed again. We can clearly see that there is a lot to be done in this field, but the system is sustainable and does not weigh too heavy on the public finance.

Alternatively, if we want to grow in the future, to attract investors and specialists, we will have to import workforce. The current demand is very high and Slovenia has welcomed a reasonable number of immigrant workers. We realize that we have to continue to do so intensively while initiating a political debate in the country. That is a key part of the development strategy. Current Slovenia economic strategy is focused on sustainable development, liberalization and deregulation, growth of enterprises, openness of markets and competition, flexibility of labor markets, internationalization and development of services, tourism and infrastructure, public – private partnership, individual needs and personal responsibility. Future development in Slovenia will be mostly defined by knowledge that is why the factors of a knowledge-based society are being further strengthened.

### What potential do you see in countries outside Europe?

More than 70% of what we export goes to the EU. Approximately 20% goes to the former Yugoslavia, or Southeastern Europe. We are now recognizing that countries such as Ukraine and Russia should be in our focus. As a small economy that is export oriented, we want a trade diversification strategy. If you are strong in sectors such as automotive, you have to be present in those markets because that is where cars will be produced. Since these markets are farther away, we know less about them and we want to open representative office of Slovenian Economy there that works under our Agency so you can get assistance from our people.

We already have seven such offices in Milan in Italy, Düsseldorf in Germany, Bucurest in Romania, Istanbul in Turkey, and also in Shanghai in China, Kazan in Russia and Sao Paulo in Brazil - because we focus lately on BRIC countries (Brazil, Russia, India and China). We are opening one in Kuwait, and plan to open four more by the end of this year. These offices enhance Slovenia's presence and build public awareness of its trade and investment potential in the host countries.

### You have the natural advantage that you are close to these European markets and you have a natural harbor. How many containers does it handle?

There are many landlocked countries around us, so our Port of Koper is very significant for them, even though it is still not very big if compared to other European ports. But it is certainly the one with substantial development, since in the last 20 years it developed from practically one million to 16 million tons and is continuing to grow and develop. However, we are still lacking behind and I think our goal should be 30 to 50 million tons in the mid-term. It took 20 years to go from one to 16 million tons, or roughly 0.7 million per year. We are currently trying to move more into the car transports and container transports. **T**

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INWARD FDI INTO SLOVENIA BY SECTOR	
Financial Services & Insurance	41%
Retail	13%
Chemicals	12%

MAJOR INVESTING COUNTRIES	
Austria	45%
Switzerland	11%
France	8%
The Netherlands	8%

Source: Bank of Slovenia

### About Ticker Q&A

ForeignInvestment interviews review economic, demographic and international trade dynamics worldwide. The articles reveal how different governments, regions and economies integrate into global commerce or benefit from the growth of local markets.

Our goal is to highlight trends in economic activities while focusing on comparative advantages and catalysts for economic growth. Additionally, Ticker Q&As seek to explore the specific needs for foreign investment of a particular economy.

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