GLOBAL CRISIS – AN OPPORTUNITY FOR COMPLETION OF STRUCTURAL TRANSFORMATION OF SLOVENIAN ECONOMY

Lučka LORBER

Abstract: *Until the middle of 1991, Slovenia was part of Yugoslavia. The Yugoslav political and economic situation was different from the traditional political and economic order of other east block countries. In the 1980s, economic problems began mounting, because the east block countries, including Yugoslavia, no longer received financial help from developed countries and had to pay back loans.*
After 1991, Slovenia's economy began changing to market economy and the privatisation process was started. It was clear from the GDP structure and GVA of Slovenian economic sectors that their economy had structural problems.
During the accession process, the new Slovenian state had to form its statehood and adapt its legislation to the European. At the same time, it had to transform the economy and secure social peace. Structural social and economic changes proceeded relatively slowly because the Slovenian government decided on a step-by-step policy with gradual changes aimed at market economy, secure national economy and clearly defined national interests.
Slovenia, contrary to the rest of the transition countries, maintained its controlling share in the ownership structure of the largest banks. This is the reason why Slovenia never felt the immediate consequences of the global financial crash to such large extent. However, the disturbances in the capital market due to the enormous loans for management (leverage) buyout of large Slovenian companies constitute a problem.
Key words: *global recession, Slovenia, structural transformation of economy, public – private partnership, regional disparities.*

INTRODUCTION

After the Second World War the political East-West division of Europe was a serious obstacle to common political and economic development of the continent.

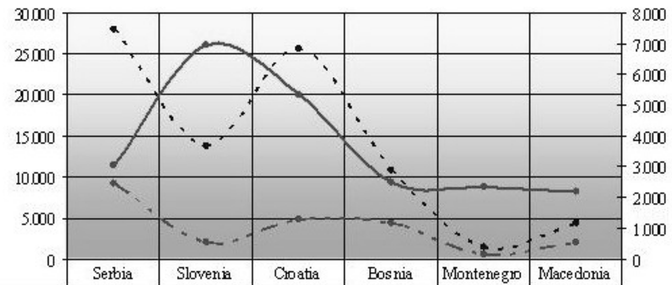
Until the middle of 1991, Slovenia was a part of Yugoslavia. The Yugoslav political and economic situation was different from the traditional political and economic order of other Eastern Bloc countries. According to the Yalta doctrine on the post-war world, Yugoslavia was evenly influenced politically by each of the two blocks. Despite communist rule, the Yugoslav post-war authority had created its own path into socialism that was more humane and economically more effective compared to other countries of the Eastern Bloc.

Slovenia, being the most developed region of Yugoslavia, had had its specific development also because of the relative autonomy of the Yugoslav republics. Slovenia's

Assistant Professor Lučka Lorber, Ph.D.
Department of Geography, Faculty of Arts, University of Maribor, Koroška 160, 2000 Maribor, Slovenia, e-mail: lucka.lorber@uni-mb.si

population accounted for 8% of the Yugoslav population. Slovenia's GDP exceeded Yugoslav GDP for 17% and Slovenian companies accounted for more that 28% of the total country's export, especially to West European countries.

In the 1980s, economic problems began mounting, because the east block countries, including Yugoslavia, no longer received financial help from developed countries and had to pay back loans. That is why the Slovenian authority decided to introduce economic changes to protect Slovenia's economy.

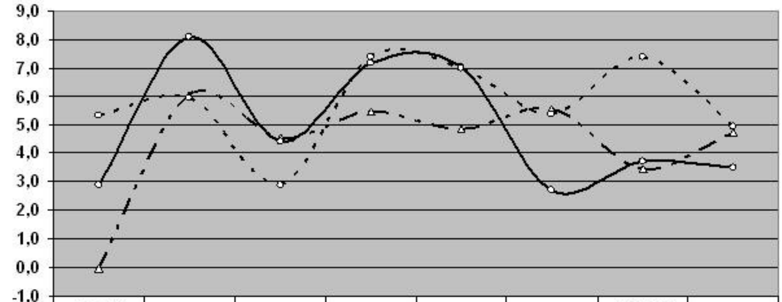


	Serbia	Slovenia	Croatia	Bosnia	Montenegro	Macedonia
Number of citizens	9226	1982	4784	4364	642	2021
GDP/Billion of USD	27.910	13.740	25.640	10.870	1.520	4.420
GDP/USD per capita	3025	6.940	5350	2.490	2.330	2.180

Graph 1*:* Yugoslav republics, year 1990.
Source:Eurostat, SURS

In 1989, the situation suddenly changed. The process of spatial European integration began, despite cultural, political and economic differences of European countries. The geographical and cultural consciousness of Western Europe must move eastward. European unification is more than just an adjustment of the East to the West. The historical experiences and cultural richness of the new member states will have considerable impacts on the societies in the West. The enlargement must for long-term sustainability not be reduced to merely a political and economic project. If the enlargement is not also made to a cultural project a mental wall will persist where iron curtain once existed (Stråth, 2003).

The accession of new member states to the European Union in 2004 represented the biggest ever enlargement of the European Union in terms of population (19 percent) and area (22 percent), but a smaller increase in terms of economic output (9 percent). Romania and Bulgaria joined to the EU in 2007. For all these postsocialist countries (exception Cyprus and Malta), EU membership represented a major milestone in their transformation to market-based economies.



	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Slovak Republic	Slovenia
1997-2000	-0,1	6,0	4,5	5,5	4,8	5,5	3,4	4,7
2000-2003	2,9	8,1	4,4	7,2	7,0	2,7	3,7	3,5
2004-2008	5,3	6,0	2,9	7,4	7,0	5,4	7,4	5,0

Graph 2. Boost to growth, 1997-2000, 2000-2003, 2004-2008
Source: EBRD, Eurostat, SURS.

Increased economic integration and successful reforms fostered faster than expected growth in the new member states. In Slovenia, spatial integration into EU has taken place by adjusting to European legal and economic order aiming at successful restructuring of economic activities and achieved economic weight, comparable to average economic growth of EU- 27.

This rapid growth allowed the new EU countries to increase their share in global economic output. Greater access to western markets led to a rapid rise in exports and improved access to foreign financing helped boost consumption.

EU membership has been particularly favourable for Slovenia and Slovakia, which have managed to meet all of the Maastricht criteria and enter the euro monetary area. Slovenia was the first new member state to adopt the euro in January 2007. The country's per capita income in PPS, the highest among the new member states, reached about 91 percent of the EU - 27 average in 2008. The Slovak Republic, the most recent entrant to the euro area, in January 2009, has been one of the strongest economic performers among the new member states, with growth fueled by productivity gains and exports. Together with Slovenia and the Czech Republic, it is now considered an advanced, rather than emerging economy (Čihak, Mitra, 2009).

But the good times didn't last. The global crisis hit in 2007 and deepened in 2008. First, this crisis started in the rich, development world, because it originated in the world's largest economy, will have a much broader and deeper impact.

Second, precisely because this is first and foremost a financial crisis, it has spread rapidly around the entire globe. For the first time since the Second World War, almost all of the major world economies are contracting simultaneously. This makes its impact on small developing countries much more severe since there are no alternative markets to which their exports can easily be directed.

Third, and crucially, the size of the shock is huge. Industrial production has plummeted; several countries are experiencing double digit reductions in their GDP. The sheer size of the recessions experienced and their rapid transmission around the world ensure that the crash of 2008 will, without question, be the largest financial and economic crisis since 1929 (Mcculloch, Sumner, 2009).

HOW TO ADJUST THE NEW ECONOMIC REALITY?

Slovenian economy faced global crisis rather unprepared given the fact that all economic indicators for the first half of 2008 showed fast and successful growth of national economy. The driving force of development was rapid export growth and intense investment growth, particularly in building sector.

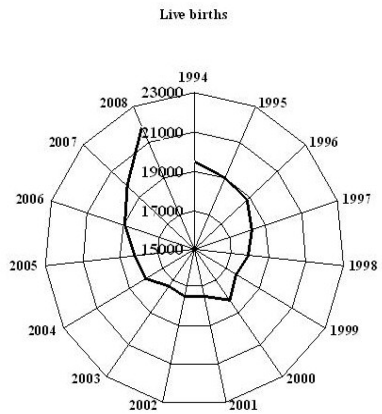
Tab. 1: The main structural indicators for Slovenia compare to EU 27, year 2000 and 2008

	SI		EU - 27	
	2000	2008	2000	2008
GDP per capita in PPS 2006	78,9	90,8	100	100
Labour productivity	75,5	85,0	100	100
Employment rate	62,8	68,6	62,2	64,4
Employment rate of older workers	22,7	32,8	36,9	43,5
Gross domestic expendure on R&D, 2007	1,41	1,53	1,86	1,83
Youth education attainment level, 2007	88,0	91,5	76,6	78,1
Comperative price levels, 2007	72,9	77,8	100	100
Bussiness investment, 2007	23,2	23,8	18,4	18,7
AT-risk-of-poverty rate after social transfers, 2007	11,0	12,0*	-	16,0
Long-term unemployment rate	4,1	1,9	4,0	2,6
Total greenhouse gas emissions (1990 =100), 2006	92,6	101,2	90,7	92,3
Energy intensity of the economy (kgoe/1000), 2006	341,9	299,1	213,1	202,5
Volumen of freight transport relative to GDP, 2007	100,0	138,5	100,0	106,8

Source: Eurostat, SURS.

In 2007, GDP growth reached 6.1%; EU-27 (2.9%); employment rate grew by 2.7% (1.6%), labour productivity was higher by 3.3% (1.3%), export increased by 16.8% (6.8%) and comprised 71.4% GDP (40.1%). Unemployment (according to the labour force poll) was at its lowest rate since gaining independence, 4.9% (7.1%), and work activity was at its highest, 56.8% (53.2%).

Among all new Member states, Slovenia was the one to allocate the largest portion of resources for R&D, 1.58% - which was still under the EU-27 average (1.83%). Dynamic economic development and new development perspectives after the entry into the EU reflected also in the increase in birth rate. In 2008, a 10% increase in the number of children born compared to the preceding year and 22% more in comparison to the year 2004.



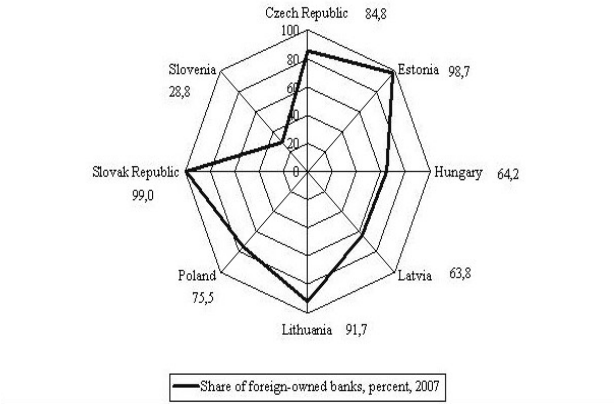
Graph 3*:* Live births in Slovenia, 1994-2008
Source: SURS

IMPACT OF GLOBAL RECESSION

After the first quarter of 2009, Slovenia entered recession. The reasons for this pace and depth are external as well as internal. The external ones are predominantly a result of the depression in the Slovenia's strongest trading partners, Germany, Italy, France and in access to bank loans made more difficult.

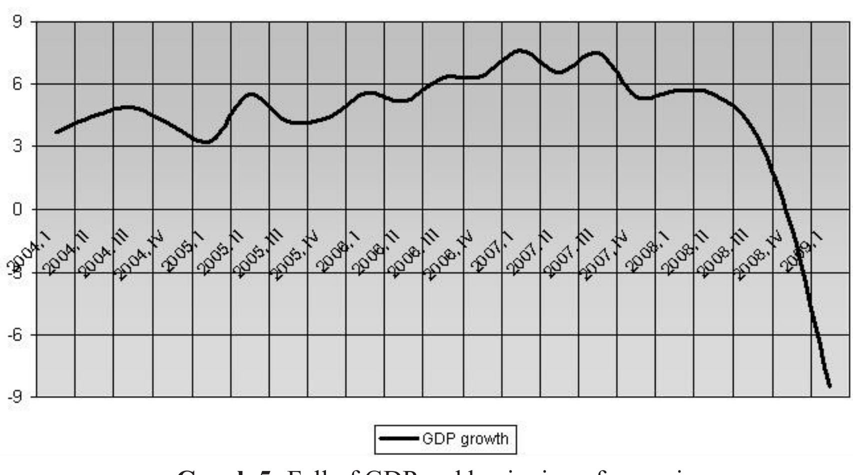
The new EU states' relative success in stabilizing and reforming their economies, combined with their acceptance into the European Union, appears to have contributed to rapid interest rate convergence, even though favourable global conditions—low interest rates, ample liquidity, and a widening of the investor base for emerging markets—also played a role. This spurred massive capital inflows to the new member states, in the form of direct investment, bank loans, and portfolio investment.

The share of foreign ownership in the banking systems of NMS is higher than in advanced Europe and in emerging markets in other parts of the world. A handful of foreign banks, headquartered in advanced Europe, entered the new markets in emerging Europe mainly by acquiring newly privatized banks. These foreign banks currently control a major part of banking assets in the new member states. Slovenia, contrary to the rest of the transition countries, maintained its controlling share in the ownership structure of the largest banks. This is the reason why Slovenia never felt the immediate consequences of the global financial crash to such large extent. However, the disturbances in the capital market due to the enormous loans for management (leverage) buyout of large Slovenian companies constitute a problem. Global financial crisis reflected in rapid fall in the value of overheating shares of the Slovenian public limited companies. The said lead to inability to repay loans insured by shares of the bought companies themselves, which, in turn, affected the liquidity of the Slovenian bank system.



Graph 4: The share of foreign ownership in the banking systems of NMS
Source: EBRD

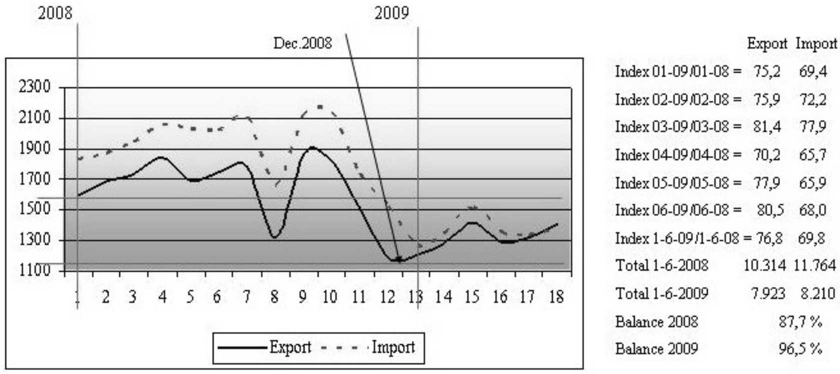
An unexpectedly large fall of GDP is mainly a result of decreasing export. The recession, caused by the global financial crisis in its most important trade partners, lead to a significant fall in production in the processing industries of Slovenian economy. The fall in export began in the second half of 2008 and decreased drastically in 2009.



Graph 5: Fall of GDP and beginning of recession
Source: Umar, SURS

The small size of Slovenia's market has always been orienting Slovenia's economy towards export.

At the same time, rapid decrease in export indicates structural inadequacy of export products in relation to the primary production factor.



Graph 6*:* Export and Import from January 2008 to June 2009
Source: SURS

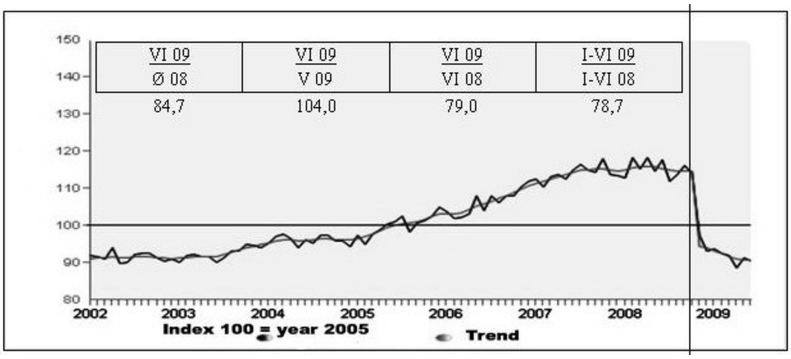
Tab. 2: Structure of goods export according to the primary production factor in Slovenia, EU-15 and EU - 12 between 1995 and 2007, in %.

		1995	1997	2000	2001	2002	2003	2004	2005	2006	2007
High natural sources Consumption	SI	16,6	16,6	15,3	15,1	14,6	14,6	14,0	15,4	16,1	15,5
	EU-15	19,6	18,8	18,0	17,5	17,7	17,6	18,2	17,8	19,4	19,3
	EU-12			20,7	19,7	18,8	18,2	18,8	19,2	19,0	18,5
High labour Consumption	SI	25,6	23,0	21,7	21,4	20,1	18,6	17,8	17,0	14,2	12,6
	EU-15	11,8	11,6	10,2	10,3	9,9	9,8	9,3	8,6	8,2	8,1
	EU-12			18,5	18,9	18,8	17,7	15,8	14,0	12,3	11,4
Goods of low Technological Demand	SI	9,7	8,9	9,9	9,8	9,9	10,1	10,8	8,8	10,2	10,4
	EU-15	7,9	7,3	6,7	6,7	6,8	6,9	7,4	6,6	7,1	7,6
	EU-12			10,5	10,9	11,0	11,0	11,5	10,6	10,8	11,1
Goods of medium Technological Demand	SI	31,9	34,5	36,4	36,4	37,5	37,3	38,3	40,2	39,1	40,9
	EU-15	30,4	31,0	29,8	30,3	30,5	30,7	30,8	29,8	29,5	30,2
	EU-12			30,1	30,6	31,5	33,1	33,3	33,3	34,3	35,5
Goods of high Technological demand	SI	14,8	15,7	15,3	15,9	16,5	18,1	17,2	16,0	17,1	17,4
	EU-15	24,3	26,0	29,2	29,1	29,0	28,3	27,9	28,5	28,6	26,5
	EU-12			18,1	17,3	17,9	18,0	18,8	18,2	19,2	19,7

Source: Umar

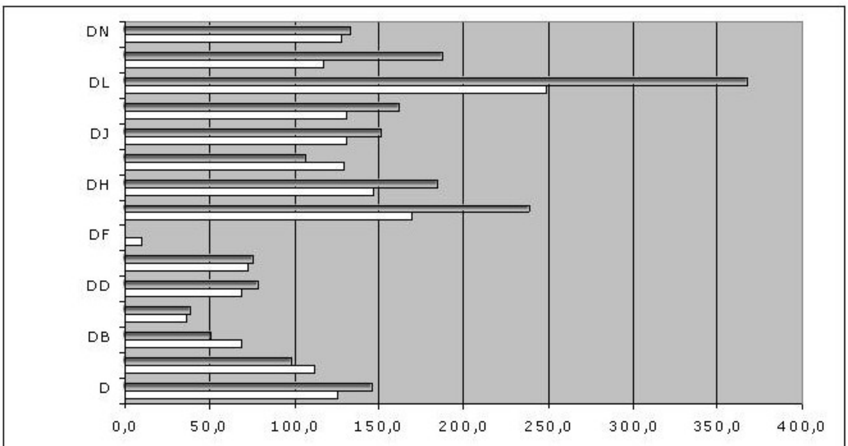
The Table shows that in this period Slovenia's economy transformed into production with lower energy and labour consumption. Goods of medium technological demand have had highest growth in export.

The decreased export and smaller domestic consumption (slower investment activity) resulted in the fall of industrial production.



Graph 7 *:* The fall of industrial production
Source: SURS

Consequently, structural changes within the production economic sector of the Slovenian economy were not thorough enough despite its enviable performance. Slovenia, as well as the most of the Candidate countries, had a well-developed secondary sector with qualified labour force, though lacking structural trends of developed countries. Manufacture was mainly comprised of labour-intensive traditional industry sectors with low added value.



	D	DA	DB	DC	DD	DE	DF	DG	DH	DI	DJ	DK	DL	DM	DN
Indeks 2006	145,7	99,0	51,1	38,8	79,0	75,6	0,0	238,4	184,4	107,0	151,8	162,1	368,1	187,9	134,1
Indeks 2003	126,0	112,0	69,6	36,9	69,1	73,3	10,5	170,0	147,0	130,0	131,0	131,0	249,0	118,0	128,0

Graph 8: Changes in Manufacture sectors in year 2003 and 2006 (1992 = 100%)
Source: Umar, SURS

During its preparations for the EU accession, Slovenian manufacture was adapting to the new market situation. An analysis of production sectors has shown that the greatest fall occurred in sectors like DB – Manufacture of textiles and textile products, DC – Manufacture of leather and leather products, DD – Manufacture of wood and wood products, and DE – Manufacture of pulp, paper and paper products. DL – Manufacture of electrical and optical equipment and DG – Manufacture of chemicals, chemicals products and man-made fibre have reached higher growth. DF – Manufacture of coke, refined petroleum products and nuclear fuel is an exception, because the extreme drop caused by the closing down of the only Slovenian refinery (Lorber 2008b) .

The ongoing global crisis presents an opportunity for a faster, more affective restructuring of the economy. Measures on the EU and national levels alleviate the crisis in the labour market thus enabling preservation of healthy economic cores and stimulate restructuring of labour intensive production activities with lower value added.

Developed manufacturing sectors are the generator of development in service sectors that are associated with the industry. In these service sectors possibilities exist for employing the work force which has once lost their employment in the manufacturing sectors because of the rationalisation of working processes and improved work productivity.

In order to improve the economic situation and successfully implement development programmes, the strategic holders (transportation-logistics sector, financial and business services, tourism, as well as large and small entrepreneurship) of economic development should be properly stimulated. It is in the regional and national interest to take advantage of the favourable geostrategic position and development perspective for the purpose of international cooperation. Public and private investments in education should be enhanced, especially investing in science and new technologies that would, together with investments in entrepreneurship, form a basis for transformation of Slovenian economy.

Tab. 3: Sectoral breakdown of gross value added as share of GDP and Activity

	2007	Gross value added in %, 2007		
	GDP/person	Agriculture	Industry	Service
EU-27	24800	1,9	26,5	71,6
Slovenia	16600	2,0	34,5	63,5
Austria	32800	1,9	31,1	66,9
Hungary	10000	4,2	29,5	66,3
Croatia	8443	6,8	30,2	63,0
Italia	25900	2,0	27,0	70,9

Source: Eurostat, Umar

The restructuring of manufacture from energy- and labour-intense sectors into technologically demanding sectors requires more services. With a higher living standard, the sector of services is developing. There are new job opportunities with higher added value. All these changes cause differences in the sectors' share of GDP. Agriculture and manufacture are on the decline and services are on the rise.

The state regulative quickly or more slowly coordinated the processes of economic change, which were dictated by the market economy and requirements of the European Union. This was suitably followed by a share of foreign investment, intended particularly for restructuring industrial production and modernisation of technology. The interior political stability of the country and the establishment of a friendly environment mainly influenced the decision of investors (Lorber 2005).

The biggest obstacle in the restructuring of Slovenian economy was capital ownership. Slovenian companies were privatized with the distribution of certificates among citizens that could be invested into companies. Thus, many companies got an internal owner. In more than 60 % of the Slovenian companies the owners are the employees of the company.

However, Slovenia has been less successful in attracting foreign direct investment, while there are delays in the privatisation process, particularly in the banking and insurance sectors.

A higher starting point in development and the traditional orientation of Slovenian economy into foreign markets enabled Slovenia a more controlled and a own-force-and-knowledge- based economic development. This strategic decision meant that some of the NMSs began progressing faster. However, this makes Slovenian economy less affected in the time of global crisis.

THE GLOBAL CRISIS IMPACT ON REGIONAL DISPARITIES

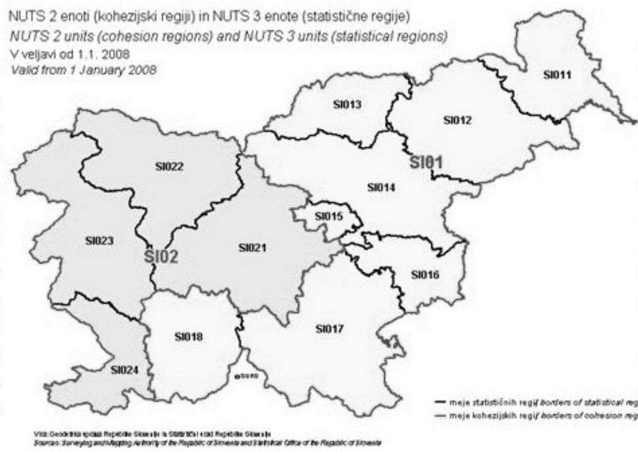
Endogenously devised approach to stimulation of development, based on exploitation of Slovenia's own developmental capabilities, was crucial in that stage of development. However, only local integration on a global level can guarantee greater efficiency of the development by combining international and state funding, as well as by private funding and building of public-private partnerships.

Developmental backwardness of the cohesion region of Vzhodna Slovenija (Eastern Slovenia), in particular according to the socio-economic indicators, inadequate traffic integration of border regions, the undeveloped service sector and the underdevelopment of the public infrastructure prevent faster regional economic synergies.

Diverse economic capacities of individual regions, unfavourable population trends as a consequence of stagnant policy regarding the border regions, incoherent development of the metropolitan areas and non-implementation of the concept of polycentric development all contribute to the setbacks and deviations from the objectives of the European regional development policy. In the border regions that were less interesting for foreign economic investments due to their peripheral location, the European competitiveness policy is now being established within

Western Slovenia GDP Slovenia = 100 Eastern Slovenia

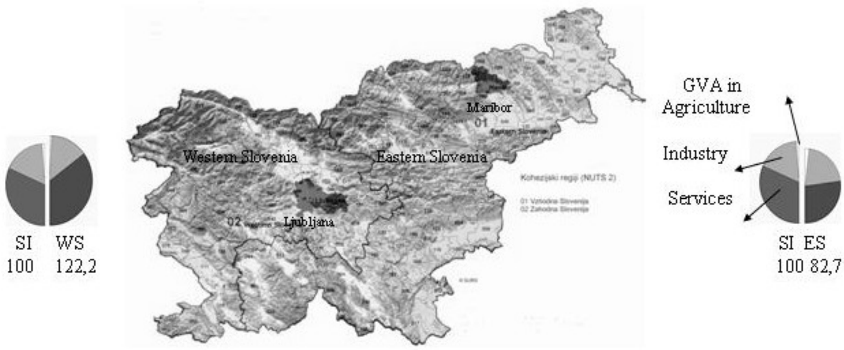
1995	118,0
1996	118,2
1997	117,9
1998	117,7
1999	119,1
2000	118,0
2001	119,8
2002	119,7
2003	121,0
2004	120,4
2005	120,6
2006	120,2



1995	85,0
1996	84,8
1997	85,0
1998	85,1
1999	84,0
2000	84,6
2001	83,3
2002	83,3
2003	82,2
2004	82,6
2005	82,4
2006	82,7

Fig. 1: Regional disparities NUTS 2the internal EU market.
Source: SURS

Slovenia is progressing in the right direction towards ensuring the conditions for the sustainable development through the accelerated investing in R&D and further high economic growth. The new cohesion division of Slovenia at the NUTS 2 level gives the country the opportunity to draw additional resources from the European development funds.



	2006	2006 GVA in %		
	GDP in EUR/person	Agriculture	Industry	Service
Slovenia	15504	2,0	34,5	63,5
Western Slovenia	18350	1,4	28,1	70,5
Eastern Slovenia	12680	3,6	42,1	54,2

Fig. 2: Regional disparities NUTS 2
Source: SURS

The Slovenian economy embraces the ongoing crisis as an opportunity for a radical structural transformation. Spatial definition of the NUTS 2 regions and defining the role of the institutions in creation of co-existential integration practices with immediate effect on spatial structure and function also have an indirect impact on generating the mechanisms for minimisation of regional disparities within the Slovenian space.

For less developed Eastern Slovenia, global crisis presents an opportunity to accelerate its development plans and, based on new development programmes, direct its development efforts into new forms of economic development, based on knowledge, using natural resources given, interregional association according to the bottom-up planning approach and project management.

CONCLUSIONS

Slovenia has been fulfilling the Lisbon objective within the economic development strategy ever since its entry into the EU. The review of structural indicators, used by Eurostat to measure the efficiency of implementation of the Lisbon Strategy, shows that, according to the Gross Domestic Product per capita and according to the labour productivity per employed person, Slovenia has succeeded in performing the transformation of economy. The structural changes achieved within economic sectors, the analysis of the GDP structure and definition according to the OECD criteria position Slovenia amongst developed countries.

During the transition period, Slovenia never completely submitted to Western policy prescriptions. Contrary to the remaining NMSs, Slovenia preserved a dominating state influence in its banking system and controlled the opening of the economy for foreign investments by making slow and well considered amendments to laws. This, contrary to certain NMSs, resulted in slower pace of economic development compared to after 2004; however, due to the economic development rate which helped it enter the time of transition; its stage of development with which it entered transition,

The recession indicated the need for new global economic paradigm which will consider specific characteristics of developing countries. The hope is that we will see the emergence of development policies which are much more and country sensitive as a result.

The global financial crisis may change the development paradigm – but it is most likely to do so through its impact on the attitudes of developing country policymakers towards the prevailing policy prescriptions, rather than through major structural changes in global economic governance.

The time of recession should be used for implementation of deep structural economic changes which will enable creating and growth of high-quality jobs. In order to do so, flexibility of the labour market and educational reforms will need to be implemented. Missed restructuring of the public sector is supposed to be a future priority for ensuring social cohesion which is the European Union's global advantage in the context of quality of life and development of democracy. By consistent implementation of the European regional integration process and changing priorities regarding European structural resources, a network of European economic power centres will develop, which will be able to reduce regional disparities using their multifunctional influences.

The current crisis, paradoxically, may provide more political space to make these kinds of changes possible, given the widely shared experience of severe economic insecurity by all relevant actors in society.

There is a need to act, even if it requires questioning conventional wisdom in such central aspects as the role of the state and the market in postcrisis conditions.

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