TRADE FLOWS, ECONOMIC COOPERATION BETWEEN ITALY AND SLOVENIA AND THE INFLUENCE OF INSITITUTIONS

Bashir Osman Ahmed and Alessio L. Lokar

University of Udine, Department of Economic Sciences, Italy

Abstract: *Italy and Slovenia are two bordering nations. It is true that they are very different from several points of view, especially if age and size are concerned. But on the other hand, they, in many ways, represent the realty of the new Europe, which is characterized by some older and larger nations, like Germany, France, UK and Italy and by a large number of small and very small nations of new generation. For this reason a comparisone between them is interesting, even if cautions must be taken in doing it.*

Of course, this reality must be viewed against the emergence of regional groupings like the EU, which are going stepwise to absorb either the larger or the smaller european nations. From an economic point of view we are living in the age of globalization, which is similar for all the nations of the world.

The paper will touch the following points: it will analyze the international trade patterns of Italy and Slovenia, also examining the balance of payements, the structure and the dynamic of the trade exchanges. The comparisons will be carried out in normalized fashion, so that they will be meaningful. One of the main points of the study will regard the international competitivity of the two countries in the various industrial sectors. The analysis will make it possible to find out which are the strengths and the weaknesses of the productive systems of the two nations.

The mutual competitivity is the basis for examining the propension to economic cooperation between the two bordering countries. Particular indexes will be developed in order to point out the sectors where Italy and Slovenia exhibit a better or worse propension for cooperating together.

TEXT

The first question which we must pose is the following one: does it have a sense to compare two countries which are different in so many basic things? Is there no fundamental bias in doing it?[1] Only some facts to corroborate this aspect: Slovenia

[1] As a matter of fact this question was already posed by prof. Marco Breschi of the Statistical Department of the Udine University. The data materials of this paper are based on a previous work of one of the authors, Lokar L. A.and al., FLUSSI COMMERCIALI E COOPERAZIONE ECONOMICA TRA ITALIA E JUGOSLAVIA, Padova, Cedam, 1989, and the laurea thesis, Lesa M., *Flussi commerciali e di Cooperazione Economica tra Italia e Slovenia*, Relator: prof. A. Lokar, University of Udine, Faculty of Economics, 1998-99, in occasion of the discussion ot

has less than 2 million inhabitants, Italy almost 60, Slovenia has an area of approximatelly 20.000 square kilometers, Italy approximatelly 300.000, Slovenia has a total GDP of some 20 billion USD, Italy something like 1000, i.e. 50 times more, Slovenia has an average GDP per capita of 10.000,-USD, Italy 20.000, Slovenia is a new country, independent only from 1992, Italy became and independent country in the sixties of the eighteenth century and has therefore a longer history, Slovenia is a country transiting from plan to market economy, Italy a country which never completelly abandoned market. But this aspect may be the most similar between the two countries: during the comunist regime Slovenia was the most westernized eastern country, she introduced several market measures already before transition, and Italy was probably one of the most easternized western countries, in the sense that she had a very large public sector, not only in order of offering public goods and services, but also in order to support supply side economics. Only in the most recent period is Italy quitting step by step its public sector, the same as Slovenia, as a consequence of transition.
But regardeless of this aspect, showing some similarities between the two countries, I consider that the reason for the comparison is more general in nature. If we look in every International Economics or Marketing textbook, we will find the countries of the world compared, even if they are very different from several points of view. Nowadays in the world there are some 300 to 400 independent nations and they are ranked by size, population, GDP per capita and so on, i.e., they are compared, regardeless if they have similar basics or not. As a matter of fact, the opposite is true: they are compared to put in evidence their diversities! Slovenia doesn't in no way have an exceptional position in such rankings. The late Toussaint Hocevar, professor of Economics at the UNO University in New Orleans, tried to make a complete ranking per size and population of all the countries of the world, finding that Slovenia was situated somwhere in the middle, i.e., having countries above but many also belove. Therefore, I think that there is no reason of principle for not trying a comparison[2].
Of course, it must be made in such a way that it is meaningful, and this may not be easy. But we will try to pay attention to this aspect, and if we will have any doubts about it, we will try to put them in evidence in order to point them out for an eventual discussion.
We will start by making a comparison of the Balance of Payements. As it is known, the Balance of Payements of a country is her global input-output account. The system-nation is treated like a black box in the world economic einvironment and the nature of the outgoing and ingoing flows is studied. They tell a lot, even if in a synthetic way, about the nature of the box itself, as every system works on the basis of its internal structure.

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this last research work prof. Breschi avanced the thesis that countries with such basic differences are uncomparable.

[2] But there could be some "emotional" reasons, like some kind of big or small ciountry chauvinism or the like.

Table 1 shows these data for both countries expressed as perecentages of GDP and in fig.1 we can follow also their variations in time. The first thing to say is that both countries exhibit averagelly a positive current account balance, meaning that they sell to foreigners more than they buy from them, but this result is obtained in a different way: for Italy by a positive trade balance, meaning that she exports to abroad more products than she imports. The opposite is true for Slovenia. Hence, it is possible to say that Italy has a stronger industrial structure than Slovenia, and is important to stress out that this result is not dependent of the size of the country, as we took the data in percentage of each country's GDP, i.e., Italy has a stronger industrial structure also if we reduce it to the size of Slovenia. This aspect is put to evidence also by the fact that exports and imports count much more in the the GDP of Slovenia (almost 50%) than Italy (between 15 and 20 %). It is possible to say that Slovenia is transforming some industrial inputs in final products and exporting them, whereas the same transformation in Italy is more radical: approximatelly 15 percent of the GDP is imported, and then so much value is added during transformations, that apporximatelly 20 % od GDP can be exported, whereas Slovenia imports averagelly 49,72% of GDP and 46,20 is exporting, i.e.;, it looses some value in the operation.

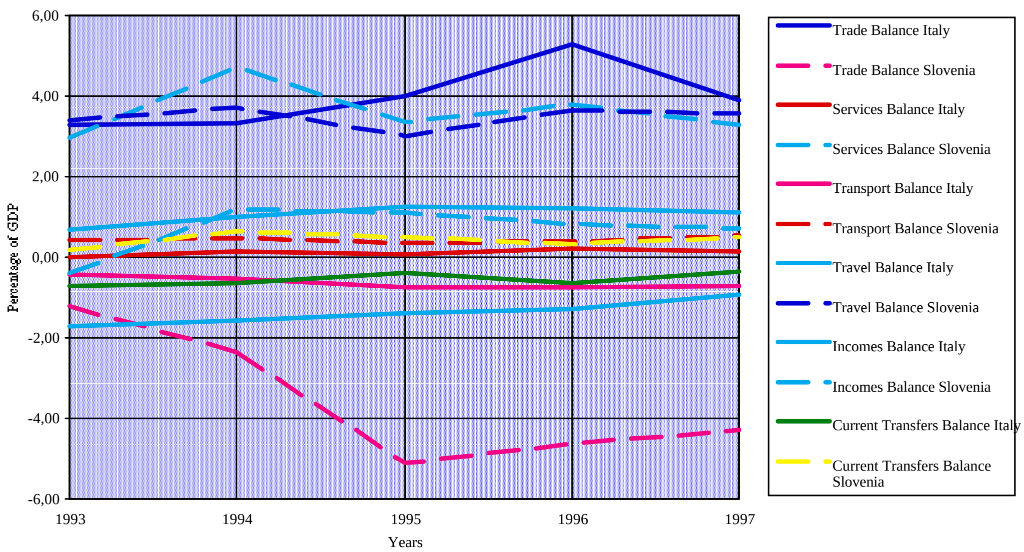
Table 1.: Comparison of the Current Account of the Balance of Payements of Italy and Slovenia, expressed as Perecentages of GDP

		1993	1994	1995	1996	1997	Average 93-97
Trade Balance	Italy	3,29	3,33	4,01	5,30	3,89	3,96
	Slovenia	-1,21	-2,35	-5,11	-4,66	-4,28	-3,52
Export	Italy	16,74	17,91	20,99	21,95	19,80	19,48
	Slovenia	47,90	47,43	44,65	44,29	46,71	46,20
Import	Italy	-13,45	-14,58	-16,98	-16,65	-15,91	-15,51
	Slovenia	-49,11	-49,78	-49,76	-48,95	-50,99	-49,72
Services Balance	Italy	-0,01	0,13	0,06	0,21	0,16	0,11
	Slovenia	2,95	4,70	3,37	3,78	3,28	3,62
Transport Balance	Italy	-0,43	-0,55	-0,76	-0,74	-0,73	-0,64
	Slovenia	0,44	0,48	0,37	0,40	0,55	0,45
Travel Balance	Italy	0,68	1,01	1,25	1,23	1,09	1,05
	Slovenia	3,38	3,73	2,99	3,64	3,58	3,46
Incomes Balance	Italy	-1,70	-1,56	-1,40	-1,30	-0,93	-1,38
	Slovenia	-0,41	1,17	1,12	0,82	0,72	0,68
Current Transfers Balance	Italy	-0,71	-0,66	-0,41	-0,63	-0,34	-0,55
	Slovenia	0,17	0,64	0,49	0,33	0,49	0,42
Total Current Account	Italy	0,87	1,24	2,26	3,58	2,78	2,15
	Slovenia	1,50	4,16	-0,13	0,27	0,21	1,20

Here there is also some large and small country effect. Smaller countries are always more dependent on "outside" flows than bigger ones, having the larger countries bigger domestic markets.

In order to bring its accounts “in order” Slovenia needs to do something in a different area than the industrial one. This is done in the service balance, in particular travel and transport, but in first place travel, i.e.:, tourism. It is interesting to find out that Slovenia, standardized for size, is a stronger touristic country than Italy, where Italy is considered in the collective immagination as one of the prototypes of world tourism, having all the art cities and countryside appeals. The other items of the current account don’t seem so relevant for the comparison. A very synthetic judgement may be expressed as follows: Italy creates its value added processing materials into products and selling them on the international market; Slovenia has also some processing, but value is lost in the operation and therefore it must be created in some other area in order to have a positive current account balance. It is done in the field of services, particularly tourism.
Fig. 1 is exhibiting the time patterns of the current account balance items: we see that the italian balance was best in 1996, whereas the slovene one was worst in 1995. In the last years the slovene trade balance is improving a little bit and the italian deteriorating. The travel and services balances are oscillating in time, remaining substantially on the same level.

Fig. N. Balance of Payements Comparison between Italy and Slovenia



Another aspect to outline is the industrial specialization of the two countries. This can be seen from table 2.

Table N.2: Export and Import Specialization of Slovenia/Italy in 1993 AND 1997

SITC	1993 EXP	1993 IMP	1997 EXP	1997 IMP
0-1-4	0,70	0,60	0,60	0,70
2	2,00	0,70	2,00	0,80
3	2,50	1,20	0,90	1,00
5	1,20	0,90	1,40	0,90
6	1,20	1,20	1,30	1,30
7	0,70	1,10	0,90	1,10
8	1,10	1,20	0,90	1,30
9	0,20	0,70	0,00	0,00

In the class 0-1-4, food products, Italy is some 30% more specialized than Slovenia and this situation is similar for exports and imports and it doesn't change a lot in the 4 years of observation. In the class 2, raw materials, Slovenia is twice as specialized as Italy in the exports and 30% less specialized in the imports. The situation doesn't change a lot in the period, with the exception of the imports where Slovenia looses a little bit of its specialization, meaning that she imports now more raw materials for her industrial processes. In the class 3, oil products, Slovenia was specialized in 93, but lost its specialization and in 1997 the two countries are without a particular specialization in this field. In the class 5, chemical products, Slovenia is more specialized in exports than Italy and it improves her specialization in time, whereas in imports the situation remains unchanged. Her pharmaceutical or chemical industry is relativelly stronger than the italian one. Again in class 6, semiproducts, parts and components, Slovenia has advantage, but it has the same advantage in import, meaning that there is a relativelly bigger deal for such kind of goods in Slovenia than in Italy. It is a proof more for the kind of industrial activity which we envisaged above: importing semiproducts, doing some relativelly low processing on them and exporting them as products of the same class. In class 7, machines, Italy is advantaged in exports and Slovenia in imports, as foresighted, but Slovenia is catching on to some extent. In class 8, final products with style and/or technological sophistication, in 93 Slovenia was advantaged, but in 97 situation reversed, Italy has an advantage. In imports Slovenia has advantage and it is growing. In these kind of products Italy is better on than Slovenia, as in many areas she is a style leader.
Another interesting aspect is given by the geographical area specialization of the two countries, shown in Table 3.

Table N.3: Geographical area Specialization of Slovenia/Italy

	1993 EXP	1993 IMP	1997 EXP	1997 IMP
Oecd	0,90	1,02	1,00	1,07
EU 15	1,10	1,10	1,20	1,11
Non Oecd	1,20	0,93	1,10	0,75

The situation of the two countries is very similar, but Italy is a little more specialized in OECD countries, which are not part of the EU, like US, Australia, Japan and the like, whereas Slovenia is more specialized in the EU countries and the developing countries.

Table N.4.: Trade Exchange between Italy and Slovenia in millions of USD			
	1993	1997	% 93/97 Growth
Export of Italy to Slovenia	1.235,00	1.980,00	60,32
% on italian total export	0,69	0,83	
% on slovene total import	19,00	21,14	
Export of Slovenia to Italy	724,00	1.210,00	67,13
% on slovene total export	11,90	14,46	
% on italian total import	0,46	0,58	
Slovenian Balance	-511,00	-770,00	

This is porobably due to the fact that Slovenia is much more bound to her closer neighbours, where trade activity is easier because of proximity.
Some of the slovene neighbours are members of the EU, others are parts of ex-Jugoslavia, or the ex-Soviet Bloc area, which are all traditional commercial partners of Slovenia. Italy is also more specialized in importing goods from non-OECD countries, meaning probably that she buys raw materials in the developing world.
Taking into account the direct trade exchange between the two countries there is table 4, from which is it possible to desume the following facts: the importance of Slovenia in italian exports is small, under 1%, but it is improving a little bit, whereas the position of Italy in slovene imports is much larger, around 20%. The position of Italy in slovene exports is more than 10%, and hence is smaller than the position in imports. Italy is hence an important partner for Slovenia, but more for imports than for exports. The two positions are both growing, more than 60% in 4 years and the the slovene export position is growing more than the import position, but the balance is still worsening, as a sign of the unchanged relative position of the two countries as far as mutual industrial structure is concerned.
Table 5 is showing the technological structure of the two flows.

Table N.5.: Italian Trade Flows with Slovenia; Sectorial Point of View.				
	EXPORTS		IMPORTS	
SITC	1993	1997	1993	1997
0-1-4	6,84	6,54	6,37	2,67

2	4,22	4,29	8,77	8,34
3	1,60	4,29	0,27	0,00
5	10,86	9,02	6,17	5,98
6	24,07	24,23	41,95	35,64
7	34,35	29,88	18,42	34,52
8	16,50	20,32	17,65	12,73
9	1,55	1,29	0,42	0,11

Italy is in first position by exporting machines (SITC N. 7), but this position is deterioriating a little bit, whereas Slovenia is first in semi-products (SITC 6) and also this situation is deteriorating. Italy is improving a lot in sophisticated final products of class 8 and Slovenia in machines (class 7). Class 8 is a traditional italian stronghold especially in the field of style-sophistication, whereas slovenian improvement is probably due to the local production of some global firms.
As far as italian regions are concerned, the most active in exporting toward Slovenia is Lombardy, which is the most industrialized italian region at all, followed by Veneto, Friuli-Venezia Giulia and Emilia Romagna, which are the most important italian regions also for imports from Slovenia.
We used also the Balassa[3] competitivity indexes in order to determine the international competitiveness of the industrial sectors of the two economies. We used the following indexes:

$$Y_{ij} = \frac{\dfrac{X_{ij}}{X_{nj}}}{\dfrac{X_{it}}{X_{nt}}} = \frac{\dfrac{X_{ij}}{X_{it}}}{\dfrac{X_{nj}}{X_{nt}}} \qquad (1)$$

where X is the value of the exports in the considered interval of time and the indexes i, j, n and t respectivelly country (i), industrial sector (j), group of countries taken as standard (n) and the set of productive sectors (t). With the index

$$D_{ij} = \frac{2\,Y_{ij}}{1\,Y_{ij}} \qquad (2)$$

we measured the improvement or worsening of the competitivity of a country i in a given sector j: 1 is referred to a first period of time and 2 to a second one. It measures therefore, the dinamicity of the competitivity in time. Table 6 shows the sectors of the slovene economy which result competitive and dynamic:

[3] B. Balassa, *Trade Liberalization and Revealed Comparative Advantage*, in Manchester School, May, 1965.

Table N.6.: Slovenia, Competitive and Dynamic Industrial Sectors.						
	SITC	Value of EXPORT	% on totale EXPORT	Competitivity Index 1993	Competitivity Index 1997	Dynamicity Index 1993-1997
Road Transport Menas	78	997.643	11,92	79,25	101,77	128,42
Furniture	82	468.662	5,60	543,24	562,83	103,61
Pharmaceutical Products	54	402.036	4,80	217,45	247,68	113,90
Paper, Cartoon, and Paper Articles	64	342.363	4,09	186,04	198,94	106,93
Non Iron Metals	68	300.723	3,59	165,68	208,07	125,59
Iron and Steel	67	249.769	2,98	81,73	109,26	133,68
Products of non Metalliferous Minerals	66	208.425	2,49	117,52	133,63	113,71
Rubber Products	62	204.033	2,44	265,70	274,07	103,15
Dying Products	53	141.110	1,69	180,67	233,97	129,50
Parfumes and Products for Hygiene	55	88.968	1,06	116,02	118,10	101,79
Machines for Metal Working	73	85.195	1,02	75,39	105,99	140,59
Chemical and Anorganic Products	52	84.071	1,00	112,21	167,75	149,50
Wood and Cork	24	80.896	0,97	131,82	141,67	107,47
Electrical Current	35	67.903	0,81	373,64	503,82	134,84
Other Food Products	9	38.762	0,46	85,38	109,76	128,55
Leather and non Manufactured Skins	21	20.293	0,24	102,54	165,55	161,45
Oils and Worked Fats and Waxes	43	4.302	0,05	32,12	103,89	323,44

Here we can see how important is becoming for the slovenian economy the industrial sector SITC 78, Road Transport Means. The italian counterpart to Table 6 is Table 7.

Table N.7.: Italy, Competitive and Dynamic Industrial Sectors (1000 USD)						
Industrial Sector	SITC	Value of EXPORT	% on totale EXPORT	Competitivity Index 1993	Competitivity Index 1997	Dynamicity Index 1993-1997
Other machines and plants	74	20.390	8,57	165,60	180,47	109,05
Specialized Machines for particular Sectors	72	17.681	7,43	183,13	187,61	102,45
Furniture	82	8.584	3,61	348,30	362,53	104,08

Non metallic mineral Production	66	8.540	3,59	181,61	192,55	106,02
Machines for Metallic Working	73	3.796	1,60	157,42	166,08	105,50
Plastic Materials and Pref.	58	3.081	1,29	138,74	155,68	112,21
Drinks	11	2.741	1,15	135,98	153,08	112,58
Sanitary, Hidraulci and Heating Articles	81	2.430	1,02	250,43	262,67	104,89
Travel Articles and Baggage	83	1.531	0,64	443,07	471,44	106,04
Oils and Vegetable Fats	42	868	0,36	160,35	165,35	103,14

Here we see the difference of the economic strategies of the two countries: Italy is strong in niche sectors, where particular knowledge of consumer needs and tastes are needed. Such sectors are normally more intersting also from the profit point of view. It would be possible and interesting to propose also the tables of the two countries bearing competitive and non-dynamic sectors, as also duynamic and non-competitive and non-competitive and non-dynamic, but for reasons of briefeness we will not do it here. But the data are at disposal.
We introduced also another index in order to study the mutual propension to cooperate in various industrial sectors:

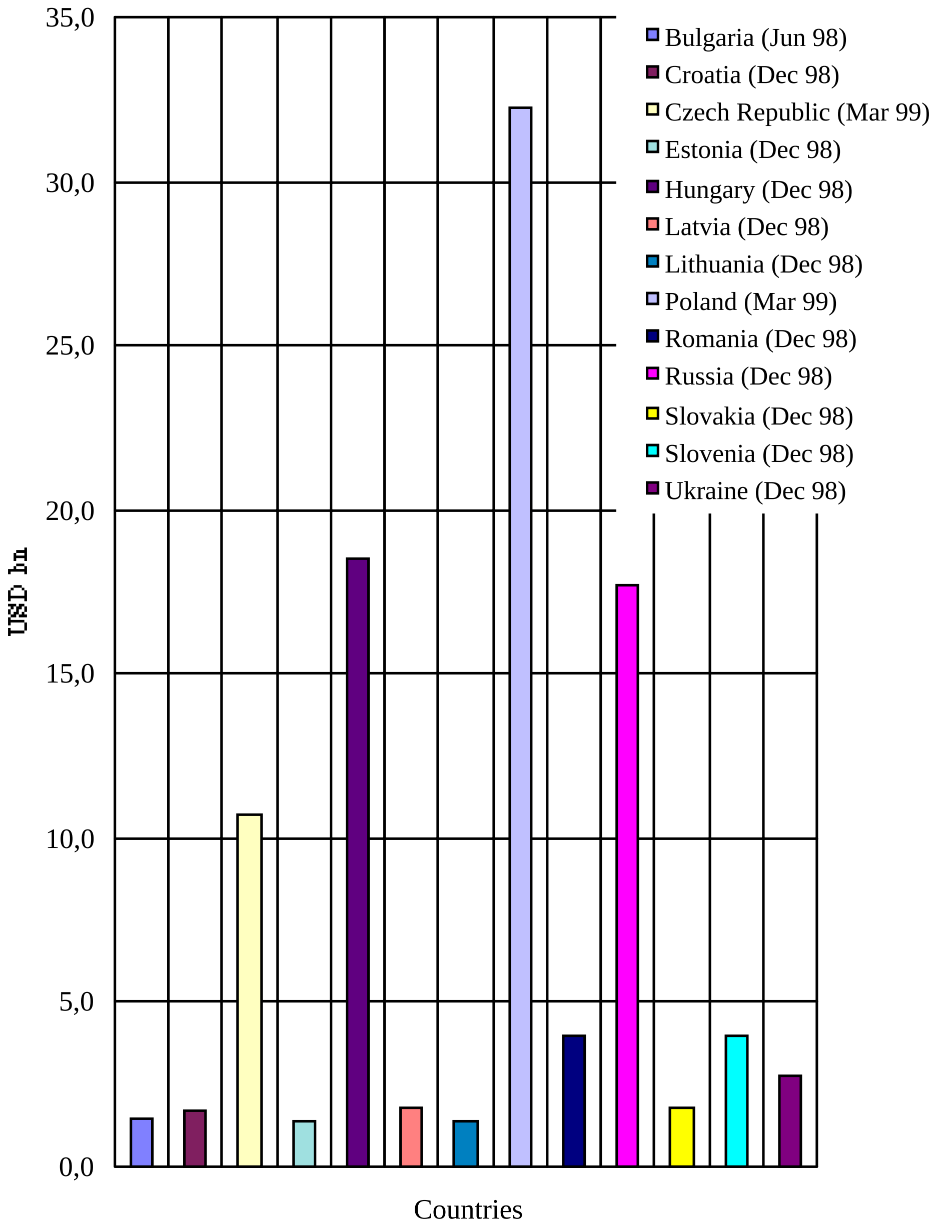
$$G_j = \frac{Y_{SLOj}}{Y_{ITj}} \qquad (3)$$

which is the ratio between the indeces Y for a given sector for the two countries. If we take

$$Z_j = \log G_j \qquad (4)$$

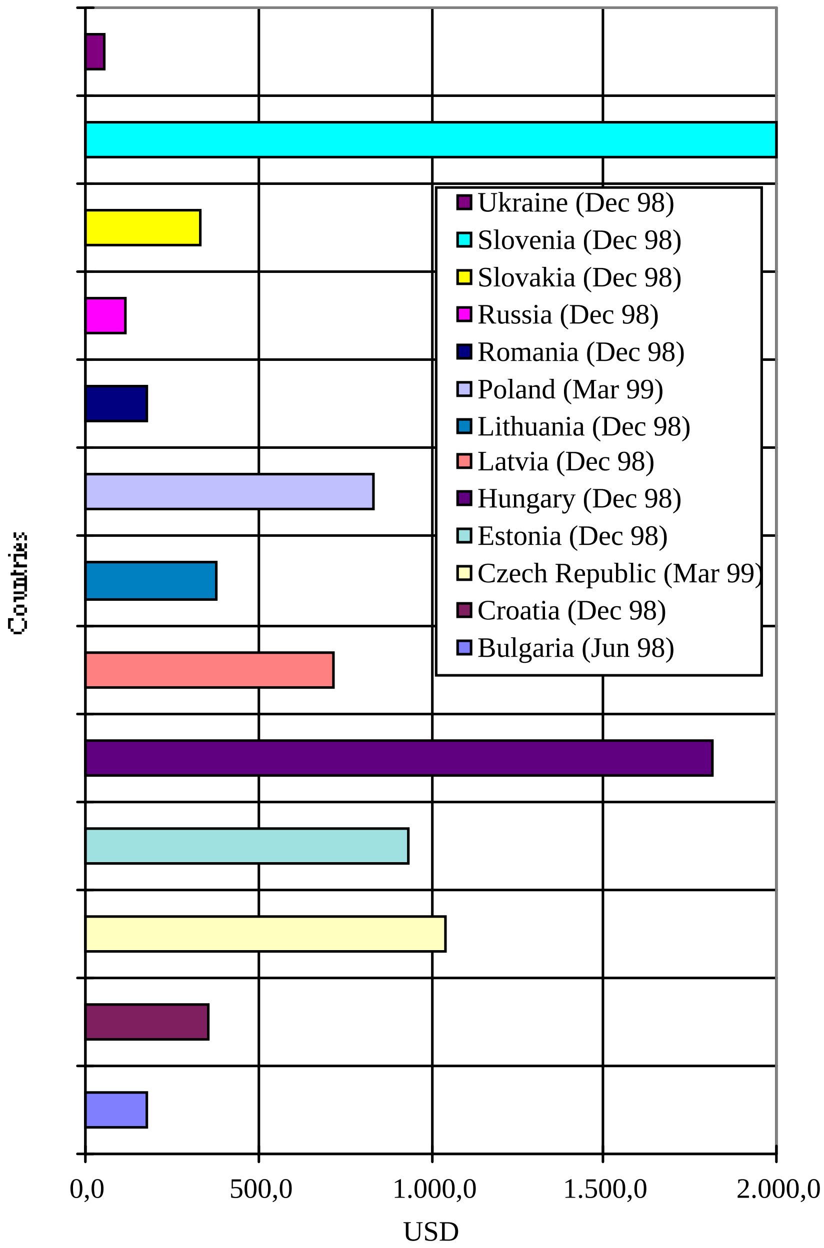
Z_i is defined in the real interval and assumes positive numbers if Slovenia is competitive, negative if Italy is competitive and 0 when the two countries have similar competitiveness.

Fig.N. 2.: Cumulative FDIs in Transitional Countries in USD bn



In that way three areas of possible cooperation are envisaged: joint-ventures where Slovenia is better and may be oriented primarilly to the italian market, joint-ventures where Italy is better and may be oriented toward the slovene market and joint-ventures where both countries are good and may be oriented toward the world markets. In the first area there are the following sectors: pharmaceutical products, wood and cork, products of wood and cork, leather and non-worked furs, chemical and inorganic products and non-ferrous metals. In the second area we have the following sectors: machines specialized for particular sectors, fruits and vegetables, travel articles and luggage.

Fig. N.3.: Per Capita Cumulative FDIs in Transitional Countries



In the area where both countries have a strong position we have: profumes and products for hygiene, sanitary, hydraulc, heating articles and lights, metal products, dressing articles, iron and steel.The graph 2 give the data about FDIs in East-Central Europe. We see that the FDI champion in the area is Poland, followed by Hungary. From that point of view Slovenia doesn't have a very high level position. But if we compute the FDIs per capita, as it is possible see from graph N.3 than Slovenia is in the first place, followed by Hungary.
The following table 8 is giving the data about the pattern of joint-ventures in Slovenia. We see that there was an 8% growth of the number of firms in general, but the growth of joint-ventures was 36% and the growth of joint-ventures between slovenian and italian entrepreneurs was 19%.

Table N. 8.: Growth of Enterprises in Slovenia

	1994		1995		1996		1997		1998		1999		Gro-wth 99/94
Slovene Capital	47.475	93	48.093	92	48.488	92	49.395	92	50.433	92	51.307	92	8
Joint-Ventures	2.735	5	3.061	6	4.379	8	4.105	8	4.380	8	3.728	7	36
JV Italo-Slovene	868	2	946	2			61	0	139	0	1.032	2	19
Total	51.078	100	52.100	100	52.867	100	53.561	100	54.952	100	56.067	100	10

Therefore we can say that the trends are better for joint-ventures and italo-slovene joint-ventures than for mere slovene entreprises. If we look in detail what kind of enterprises are founded, it is to be said that most of them are SMEs which are working mostly in the field of trade, various activitires and services. There are not many companies with activities in the productive field.
It is sure that for such small companies the institutional environment is very important: if the entrepreneurs think that their activity could be in some way endangered by bad insititutional functioning they would probably immediatelly retreive from the country. For this reason we consider that especially for small countries like Slovenia, the enhancement of the institutional environment due to the entrance into the European Union is very important also to improve the joint-venturing between the countries and hence also, in order to improve the economic relationships between the countries.