

**MEASURING COMPETITIVENESS OF
NATIONAL ECONOMIES WITH
EMPHASIS ON SLOVENIA**

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WORKING PAPER No. 6, 2000

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E-mail address of the authors: stanovnikp@ier.si, kovacica@ier.si

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SUMMARY

The research paper deals with the problems of international competitiveness of national economies, with emphasis on Slovenia and other Central European transition countries. In the beginning there are discussed different theoretical approaches of measuring competitiveness. IMD defines international competitiveness of a country as the global position "to create added value and thus increase national wealth by managing assets and processes, attractiveness and aggressiveness, globality and proximity and by integrating these relationships into an economic and social model". Companies need to cope with the political, economic, socio-cultural, human and educational dimensions of a country's global environment. OECD puts an emphasis on a degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets while simultaneously maintaining and expanding the real incomes of its people over the long term.

The concept of international competitiveness has become even more important under the conditions of global economy. There is no longer a one-way flow of tangible and intangible investment and products from the most developed to less developed countries. The development gaps between the countries of triad (USA, Japan, EU) are now less pronounced than a decade ago. The main reasons for the increase of EU's competitiveness are connected with higher shares of foreign trade and FDIs, with the introduction of euro, deregulation of telecommunications and energy sector and privatisation of state enterprises. The world competition has become especially fierce in high-tech sectors like microelectronics, biotechnology, new materials, telecommunications, robotics, computers and aerospace.

The last few years have shown that small open market economies with well governed public administration have advanced faster. This is especially true for Singapore, Finland, Netherlands, Switzerland, Ireland, Denmark, etc. This is proved by high rankings of these countries in the World Competitiveness Yearbook in the period 1996-2000. After 11 years of painful and volatile transformation the competitive position of Central European transition countries has been slowly improving. Progress in Central European transition countries have been closely linked to the process of their integration to the EU. Hungary's competitive position is the best among the transition countries (27th rank due to the early implementation of radical economic reforms, good performance of banking and high level of internationalisation through FDIs) followed by Slovenia, Czech Republic and Poland. Slovenia is quite well positioned with respect to domestic economy, infrastructure, management and human capital. The present position in terms of international competitiveness is the consequence of the long-term insufficient investment in technological development, innovation and the restructuring of production programmes. The low efficiency of R&D investment is just one of the reasons for Slovenia's technological laggardness and its achieved competitiveness. Among other reasons there are Slovenia's smallness, the lack of capital concentration and unsatisfactory inclusion of enterprises into the international networking. Such a situation is the consequence of a corporate governance deficiencies and the unfinished process of industrial restructuring. Slovenia still has a very high share of labour and energy intensive exports in comparison to technologically intensive and market differentiated products and services.

It is expected that Slovenia's ranking will advance in the next years, particularly because of increased pace of legal harmonisation and faster implementation of EU directives.

1. INTRODUCTION

Competitiveness is a broad concept, which can be observed from different perspectives: through products, companies, branches of the economy or national economies, the short-run or the long-run. The most complex of these is the concept of the competitiveness of the national economy. Some authors even negate its importance, particularly in a system of floating exchange rates. For example, Krugman (1994) sees the competitiveness of the national economy as a dangerous obsession, and similarly, Porter claims that national productivity is the only meaningful concept of competitiveness at the state level. States and companies should be viewed equally, as international trade is not a zero sum game and because states cannot be competitive in all branches of economic activity (Porter, 1990).

The competitive society, in sociological terms, is the society which can achieve a dynamic balance between wealth creation and social cohesion.

The international competitiveness of the economy is viewed in a broader way as the capability of achieving economic growth in the long run, and achieving an economic structure which easily adapts to changes in demand on world markets. The long-term capability of international economic competition is determined by many internal and external factors: human and natural resources, infrastructure, management, capital, government intervention and the technological capability of companies. The efficient allocation of these resources results in different levels of productivity, the scope and structure of the international trade in products and services, and the capability to generate, adapt and diffuse innovation. So the economy's capability to innovate at the beginning of the 21st century is characterised by:

- the increased level of innovation, the wider use of new generic technologies, such as information technology biotechnology and new materials;
- shorter product life cycles and a faster reaction to the needs of consumers;
- the increased levels of flexible automatization and robotization with the use of computer supported product systems;
- the increased role of management, and a highly qualified and capable workforce;
- the changes in the use of new resources and materials;
- the changes in the organization of industrial production, such as, "just in time", lean production, "total quality control", and so on (OECD, 1999).

Countries with different infrastructures and economic-policy measures are indirectly competing to attract the investments of multinational companies or the most interesting, profit making, industries. For the "Slovenian type" economy, internationalization at all levels is essential for long-term economic growth.

Most economists attribute an important role to the concept of a country's competitiveness, although there is no widely accepted definition nor an agreement on the empirical measurement of competitiveness. Most definitions fuse the aspects of external balance and the domestic situation, and define competitiveness as the capability to produce internationally competitive goods and services, and the capability to ensure a satisfactory and growing standard of living (Krugman, 1994).

The methodology of measuring international competitiveness must, above all, consider four groups of factors, which influence the economic efficiency of a country and its companies (IMD, 1999)

a) The attraction of each country's domestic market in comparison to the penetration of its companies into foreign markets

Some countries prosper with the constant and intensive presence of their goods, or foreign direct investments (FDI), on other markets. Typical examples of such countries are Germany, South Korea and Japan. On the other hand there is the prosperity of countries which create an attractive environment for foreign investors and domestic companies, such as, Ireland, Taiwan and Great Britain.

b) The importance of the domestic market in comparison to globalization

This considers differences in the way some countries pursue their internally oriented economic policy, where the the producers of goods and services are close to the final consumer, as in the case of government services, craft services or suppliers of social services on the domestic market; or the externally oriented global economy, where the management function is carried out in terms of the international division of labour and world added-value is of prime importance (typical examples are in the fields of telecommunications, computers and the car industry).

c) Real asset wealth in comparison to processes

This group of factors deals with economic forces between countries whose production rely on domestic raw materials (for example Brazil), and those which give more importance to transformation processes to create high added- value, for example, the USA and Japan. These comparisons consider the differences brought about by leaning towards domestic resources and those from dynamic comparative advantages and international specialization (Krugman, 1998).

d) Individual company risks in comparison to social cohesion

The last group of economic forces tries to evaluate the extent of engendering competitiveness, through which a country, in the main, stimulates individual company risk-taking through deregulation and privatization (the Anglo-Saxon model) in comparison to a model of social cohesion (the model of continental Europe and Scandinavia), where the social partners (the state, the private sector, and the trade unions) harmoniously solve the essential problems.

The article is organised as follows. Chapter 2 deals with the main methodological approaches to measuring competitiveness. Chapter 3 shows the results of measuring international competitiveness for the year 1999 from the aspect of most developed countries. Chapter 4 analyzes the rankings of transition countries, and compares them. Chapter 5 focuses, in detail, on Slovenia and the possibilities for improving its international competitiveness.

2. METHODOLOGICAL APPROACHES TO THE MEASUREMENT OF COMPETITIVENESS

There are two reports on international competitiveness which play an important role in the intensely growing world debate about the productivity and competitiveness of countries. These are The World Competitiveness Yearbook (IMD) and the Global Competitiveness Report, issued by WEF. WB's World Development Report also deals with the question of achieving a successful development policy in the long run. The Transition Report, issued annually by EBRD (European Bank for Reconstruction and Development), is particularly useful as the IMD and WEF reports don't specifically regard transition countries and their problems.

The above reports confirm the end of the single-indicator view of development. Country's performance is now evaluated in terms of many indicators, so that the general evaluation of a country's success is formed through the use of different groups of indices. This approach gives us a better view of the factors that determine economic success and improve the quality of life. The weakness of using many indicators is the difficulty of interpretation, especially the summary view, and this is the reason why the above mentioned reports have gradually decreased the number of indicators they use. The problem of correlation between indicators has shown that it is possible to decrease the number of indicators used and still preserve the integrity of country classification rankings.

According to IMD methodology, international comparisons of national competitive capabilities are a useful basis for the formation of a development strategy as the national, not only governmental policy must form goals that are acceptable and achievable in the synthesis of a higher quality of life for all citizens, not only in terms of the standard of living, but also in terms of security and the economic and natural environment. It is important to start with a diagnosis of the weakest parts of the economy and the role they play in the construction of a country's national competitive capability.

This viewpoint not only presents us with the capability of achieving higher GDP per capita growth, but also the assertion of the role of relative national advantages in increasing GDP per capita, and the mechanism for the control of and abolishing of structural imbalances and problems during recession. As GDP per capita is degradable, according to IMD methodology, into 8 groups of aggregates, and within these to subgroups of single measurements, their analysis can lead to a diagnosis of the weakest points which must be abolished (Gmeiner, 1999).

The methodological approach of the IMD considers 288 indicators, which are classified into 8 groups of competitiveness indicators: the domestic economy, internationalization, the functioning of the government and state administration, the financial system, management, science&technology, and human capital.

At the end of 1998 the Institute for Economic Research and the Economic Faculty of Ljubljana University decided to prepare an appropriate database for Slovenia, and to carry out, in accordance with the relevant methodology, the inquiry of Slovenian management necessary for the evaluation of Slovenia's level of international competitiveness. This research on Slovenia's level of international competitiveness has shown rather large differences between the sectors of the economy: manufacturing, services and agriculture.

The 'World Competitiveness Yearbook' analyzes in detail individual company indicators and shows where the state and companies should act. The inclusion of Slovenia in 2000's yearbook is very interesting, because 1999 was characterised by structural reforms and positive developments with regard to the process of Slovenia's integration into the EU. The IMD yearbook is extremely important to international businessmen and investors.

One of the IMD's methods of presentation is the 'special page' which shows two lists for every country: on one side there are the indicators which show a country's strong points, and, on the other, those which show the greatest weaknesses.

A comparison of WEF and IMD methods shows that WEF methodology strongly considers those factors which are crucial for achieving high economic growth. That is why special attention is given to those indicators which ensure a constant high annual growth rate of GDP per capita. As a result, the WEF's annual prognosis is regarded with higher esteem than the IMD's. The IMD's Yearbook is useful for different communities (business, academy, government). The WCY is used by business community to assess national and international environment. In an open and global world, location is very important for companies. They need to reassess or choose new locations at the time. The WCY is used as a key input in their decision making. The 288 indicators considered are more important to entrepreneurs and financial companies than a single synthesis indicator ranking of the competitiveness of an individual country. The synthesis indicator doesn't indicate all the possibilities for long-term economic growth. The WEF's index of competitiveness, in contrast, has a verified prognostic quality, which is ex-post measurable and for a pre-determined period of time correlates well with the average achieved economic growth in a particular country. Another argument for using the WEF's indicators is that it uses a careful "weighting" of particular variables, whilst the IMD gives them the same importance, for example, particular indicators of infrastructure or management have the same importance as domestic economy and internationalization indicators.

WEF methodology is most appropriate for highly developed countries with a high level of international factor mobility, and because of this, their mutual classification is more appropriate regarding national competitiveness. Lesser importance is given to indicators from the group of management and the group which describes the quality of legal and political institutions. The methodology of WEF drives forward those merits connected to the level of the country's economic growth. This is mainly influenced by open markets, low taxation, high savings, human capital and legal order. In its new selection, the WEF has excluded some variables, such as, the growth of GDP, the growth of exports, sector growth, and the inflow of foreign direct investments, from its annual reports; these being the factors which are a consequence of and not a reason for national competitiveness.

Table 1: The international competitiveness of countries with similar levels of GDP as Slovenia

WORLD BANK RANKING BY GDP	GDP/ per capita (PPP) in USD 1998	GDP/ per capita 1998	WEF ranking 1999	IMD ranking 1999
24. Israel	17,281	-1,62	28	24
25. Spain	16, 213	3,67	26	23
26. Portugal	14,847	4,00	27	28
27. Slovenia	14,308	4,00	30-35 (est.)	40
28. Greece	13,937	2,71	41	31
30. Czech Republic	12,368	-1,80	39	41
31. Argentina	12.016	3,09	42	33
32. Hungary	10,236	5,42	38	26
34. Slovakia	8,661	4,40	45	
37. Poland	7,619	5,92	43	44
40. Turkey	6,427	1,69	44	37S

Source: WORLD BANK, WEF, IMD, Institute for Economic Research 2000

Until now Slovenia has not been included in the WEF Annual Report. According to our own evaluation, Slovenia would in terms of competitiveness indicators, achieve a ranking of between 30 and 35. Because of its high GDP per capita in comparison to other transition countries Slovenia would be, according to WEF methodology, ranked the highest amongst transition countries. The reason for Slovenia's lower ranking, in terms of the IMD's methodology, is in its detailed analysis of the functioning of the state administration, which is a distinct weakness in Slovenia.

3. INTERNATIONAL COMPETITIVENESS MEASUREMENT RESULTS

Table 2 ranks the 14 most developed countries according to the main competitiveness indicators which the IMD uses to structure its World Competitiveness Yearbook.

In terms of the international competitiveness index the USA has been ranked highest for a couple of years, mainly because of its stable economic growth, its companies' high capability for innovation, its strong financial system and the important role of the technologically most advanced activities in its economic structure (the increasing role of "new economy") Singapore, Finland and the Netherlands follow.

The USA started to utilize the advantages brought by information technology (telecommunications, the computer industry) at an early stage. The use of new, generic technologies in the USA has helped generate its high economic growth of the past few years. Moreover, the internet allows for a cheap presence on the global market, it can also increase the understanding of individual customer's characteristics, trace their development and transform statistical data about consumers into a long-term and tight relationship.

Table 2: The international competitiveness of the 14 most successful countries and main groups of competitiveness indicators in the period 1996-2000

	1996	1997	1998	1999	2000
1	USA Domestic Economy	USA Domestic Economy	USA Domestic Economy	USA Domestic Economy	USA Domestic Economy
2	SINGAPORE Internationalization	SINGAPORE State Administration	SINGAPORE State Administration	SINGAPORE State Administration	SINGAPORE State Administration
3	HONG KONG State Administration	HONG KONG State Administration	HONG KONG State Administration	FINLAND Infrastructure	FINLAND Infrastructure
4	JAPAN Finance	FINLAND Infrastructure	NETHERLANDS Finance	LUXEMBOURG Finance	NETHERLANDS Management
5	DENMARK Finance	NORWAY Infrastructure	FINLAND Infrastructure	NETHERLANDS Management	SWITZERLAND Science & Technology
6	NORWAY Infrastructure	NETHERLANDS Finance	NORWAY Infrastructure	SWITZERLAND Science & Technology	LUXEMBOURG Finance
7	NETHERLANDS Management	SWITZERLAND Finance	SWITZERLAND Finance	HONG KONG State Administration	IRELAND Domestic Economy
8	LUXEMBOURG Internationalization	DENMARK Finance	DENMARK Finance	DENMARK Finance	GERMANY Science & Technology
9	SWITZERLAND Science & Technology	JAPAN Science & Technology	LUXEMBOURG International -ization	GERMANY Science & Technology	SWEDEN Infrastructure
10	GERMANY Science & Technology	CANADA Infrastructure	CANADA Infrastructure	CANADA Infrastructure	ICELAND Human Resources
11	NEW ZEALAND State Administration	GREAT BRITAIN Internationalization	IRELAND Domestic Economy	IRELAND Domestic Economy	CANADA Infrastructure
12	CANADA Infrastructure	LUXEMBOURG Internationalization	GREAT BRITAIN International -ization	AUSTRALIA Infrastructure	DENMARK Finance
13	CHILE State Administration	NEW ZEALAND State Administration	NEW ZEALAND State Administration	NORWAY Infrastructure	AUSTRALIA Infrastructure
14	SWEDEN Management	GERMANY Science & Technology	GERMANY Science & Technology	SWEDEN Science & Technology	HONG KONG State Administration

Source: IMD 2000

The USA's advantages, when compared to others who are highly ranked, are great. Its average economic growth of around 4% from 1994 to 1998 is a great success. Furthermore, one of the reasons for such a high ranking is that the multinational companies efficiently utilize the advantages of globalization.

In the last five years Singapore has been ranked second. A few years ago internationalization was its dominant area of competitiveness. Its flexible state administration and institutional framework, which react quickly to economic changes, are now its dominant areas in terms competitiveness. A few years ago the main task of the government was to lead the economy, now it is more important that the state administration helps to attract foreign investment.

Between 1995 and 1999 we can notice considerable progress in the growth of North European and Scandinavian countries (Finland, Netherlands, Ireland, Sweden, Iceland, Denmark). Finland's progress in terms of international competitiveness has been impressive. Finland has achieved great progress in telecommunications; mainly due to Nokia. In 1999 Finland was ranked third which is even more surprising as in 1996 when it wasn't even ranked amongst the first ten.

Luxembourg is characterised by the high share of financial services in its GDP and the high level of internationalization of its economy. In the previous year finance became an even more important factor in terms of competitiveness.

The Netherlands is ranked fifth with excellent management as its main area of competitiveness. The Netherlands has, with the introduction of flexible work practices (30% of employees work part-time), addressed the needs of the global economy.

In 1999 Ireland was ranked 11th. Its most important competitive area is in terms of its domestic economy. The growth of the Irish economy in recent years has been considerable (9% GDP growth in 1999). Ireland is now the second largest exporter of software after the USA.

In the last few years there have been some changes in the global competitiveness of European countries. EU members have increased their global competitiveness mainly as a result of the harmonization of monetary policy, and the improved division of labour inside the EU. Between 1996-2000 the advantages regarding internationalization and management in the global sense have decreased. This is true for the group of most successful countries where multinational companies have almost levelled out the differences. As a result of the high degree of internationalization Singapore and Great Britain were highly ranked in 1996, but this is not such an important factor today as the formation of strong integrations (EU, NAFTA, ASEAN) has improved the degree of internationalization for almost all of the advanced countries.

The importance of infrastructure and science and technology increased between 1996-2000. The reasons for this lie in greater capital movements, and an increase in the transfer of technology and know-how between countries. With the increase in globalization and

improved division of labour at the international level the measurements of global competitiveness are also changing. The efficient functioning of the government and the state administration are of great importance and influence the other determinants of international competitiveness. Most EU members, (except Ireland, Luxembourg and Finland), are ranked lower with regard to the efficient functioning of government and state administration. The reasons for the lower rankings are also the high taxes and social contributions.

The most recent period brought considerable changes in terms of globalization. We experienced the first phase of internationalization in the 1950's and 1960's. Trade was spreading all over the world, and the exploitation of cheap raw materials and labour in third world countries was also increasing. The rapid growth of trade and the improved mobility of production factors helped international companies to better penetrate markets and exploit the competitive advantages of particular countries. In the 1980's and 1990's there were considerable changes. As a result of the oil crisis and economic recession some governments realized that strong state intervention was not necessary anymore. The process of deregulation, privatization and integration of financial markets continued apace. With the concomitant retreat of the state from the economy and weaker regulation of markets there was a greater degree of capital mobility on a global level. Capital's domination over trade flows is characteristic of the mid- 80's and early 90's. The third phase of globalization is characterised by the growth of foreign direct investments. World FDI flows have increased from \$60 billion in 1985 to \$649 billion in 1998.

Structural funds and regional banks are of great importance in the implementation of a harmonized regional development policy. Highly developed social systems, pensions (the ageing of population demands its reform), transfers and subsidies, are very expensive for EU countries. Education has become a priority and the result is a highly qualified labour force.

Production costs in countries with high levels of government intervention are high and these do not stimulate the necessary conditions for transnational companies. There is also a question concerning the power of Brussels' bureaucrats and their functioning to the benefit of the whole EU.

4. THE COMPETITIVENESS OF FOUR TRANSITION COUNTRIES AND FOUR COMPARABLE EU MEMBERS

Because of better understanding of the Slovenian situation in terms of competitiveness we have conducted a comparative analysis with countries which have similar characteristics and face transition problems similar to Slovenia's: Poland, Hungary and the Czech Republic. Finland, Norway and Ireland have populations of less than 5 million. Greece, Portugal and Slovenia have comparable GDP's per capita. Comparisons with these countries reveal Slovenia's main problems, and show what it will have to do to in the next few years to decrease the development gap between itself and EU members. But there are also general characteristics in the country's small size and at this stage of its transformation into a market economy. Our comparative analysis ably reveals some weaknesses in methodological

approach: equal weighting of all data regardless of importance, and its inadequate evaluation of the possibilities of progress and economic growth in transition countries. Slovenia was ranked 40th in terms of international competitiveness in 1999.

Table 3: Ranking of competitiveness according to the main groups of factors which influence international competitiveness

International Competitiveness	Domestic Economy	Internationalization	Government	Finance	Infrastructure	Management	Science & Technology	Human Resources
3. Finland	4	11	10	8	2	3	6	1
11. Ireland	2	8	5	16	23	7	11	21
13. Norway	9	25	20	19	3	19	17	5
26. Hungary	17	17	26	28	26	30	27	26
28. Portugal	21	19	25	21	27	34	38	25
31. Greece	25	32	36	31	35	31	31	30
40. Slovenia	34	46	47	44	29	38	36	28
41. Czech Rep.	44	35	42	42	32	45	41	34
44. Poland	37	45	44	37	38	44	43	38

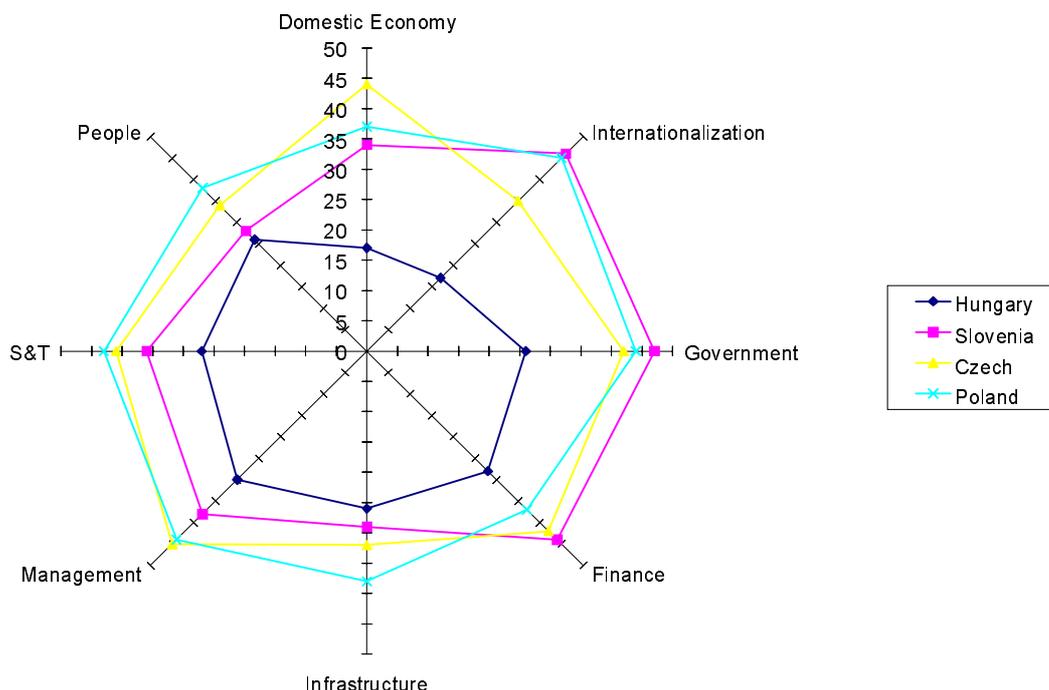
Source: IMD 1999

The strengthening of the international competitiveness of Central European transition countries depends mainly on the EU enlargement process. The status of associated membership removes some barriers to competition and accelerates the pace of market liberalization. Slovenia's formal association agreement was signed on 1st February 1999 and has accelerated its changes towards an increased level of global competitiveness, mainly in the areas of internationalization, state administration and financial markets. As Poland, the Czech Republic and Hungary signed their association agreements earlier, that is the reason why they are better harmonized than Slovenia in these areas.

Finland achieved an extremely rapid rate of progress in the last ten years because of its efficient state administration, its rapid introduction of technological innovation and use of industrial "clusters". The reasons for Ireland's high ranking in comparison to other countries are its low levels of taxation, low labour costs and its efficient state administration, which are capable of ensuring good competitiveness conditions.

Graph 1 shows the ranking of four transitional countries in terms of particular international competitiveness indicators. Hungary is ranked highest for all indicators. Slovenia is ranked 2nd in terms of its domestic economy, infrastructure, management, science and technology and human factors. It is ranked last in terms of the internationalization of the economy, state administration and progress in financial markets. In recent years it has been shown that countries with a well developed state administration make better progress. Hungary's advantage's in this area are great, although we estimate that some indicators are not sufficiently adjusted to the specifics of transitional countries.

Graph 1:



Source: IMD 1999

Hungary's high level of internationalization is due to the strong economic presence of western companies on its markets. In terms of 'Management' the differences between countries are increasing. Hungary and Slovenia have made progress in the last few years, whilst the Czech Republic and Poland have lagged behind.

The analysis contained in the most recent European Commission report shows that the transition countries of Central Europe have made considerable progress with regard to their joining of the EU. Poland, Hungary, the Czech Republic and Slovenia are becoming important economic partners with the EU, mainly as a result of their geographical proximity, good infrastructure and cheap labour forces. As a result production is moving to central European countries. Hungary, Poland, the Czech Republic, Estonia and Slovenia received FDI's of around \$12 billion In 1999. It is expected that this will increase by 20% in 2000.

The importance of FDI to Central European countries is now of great significance. A quarter of the private sector in Hungary is owned by non-nationals and it creates 75% of Hungary's exports, amounting to \$23 billion per year. With the changes in institutional order and the adjustment of the legal and economic framework concomitant with EU membership the possibilities for business and economic progress are increasing. Central and Eastern Europe's relatively cheap and well educated labour force is its main attraction, and these differentials are not decreasing as rapidly as predicted. Ten years after the fall of the

Berlin wall, the gap between Eastern and Western Europe is still substantial though it is decreasing.

Successful adjustment to EU regulations increases the possibilities for economic cooperation. Hungary's early introduction of state administration reform has proved credit-worthy. This is also shown in its high ranking in the graph above. In 1999 Slovenia tried to compensate for its delay in harmonizing with EU regulations. The Commission's report illustrates Slovenia's progress in its adjustment to the legal framework of the EU's *acquis communautaire*. The institutional progress of transition countries creates new possibilities for their inclusion into global economy. The consequences are: the faster progress of economic activity in candidate countries; the increase in standards of living; the assurance of better employment possibilities; increased productivity levels; and, financial stability. According to the EBRD's evaluation, last year's crisis in Russia did not have a great influence on the performance of the most developed transition countries, amongst which are, by EBRD classification, all CEFTA member countries except Bulgaria and Romania, who transferred most of their trade to West European markets in the 1990's.

Central Europe is becoming very important to the EU due to its trade surplus with these countries. The inclusion of Central European candidate countries into the EU will increase its overall level of competitiveness. The future strengthening of mutual relations will depend on the assurance of an improved competitive environment in candidate countries. Some governments in these countries still have a trusteeship over domestic industry through state aid; public sectors are still relatively closed. Hungary is ranked top in terms of the competitive environment. Generally, its advantages derive from its rapid progress in the management of public finance over the last five years, and the low price of capital. Moreover, management in Hungary is seen as being extremely credible. There are many multinational companies in Hungary, such as, foreign banks and insurance companies. The definite increase in manufacturing productivity of 61.1% between 1993-1998 together with a rather low average wage rise of 14.7% amply illustrate their position. In comparison to other transition countries Hungary achieved an exceptional trend in D-mark unit labour costs (-27.8%) in the 1993-1998 period, as a consequence of large FDI inflows into the country followed by industrial productivity growth.

Manufacturing productivity increased in Poland by 60% in same period. Wages in Poland are the lowest amongst analysed Central European countries. D-mark unit labour costs increased by 11.9% in the same period. The Czech Republic and Slovenia redistributed state property through the use of share certificates. This adversely influenced the new owners' economic stewardship in the first years of transition. Ratios between productivity and wage growth are not favourable. The Czech Republic's manufacturing productivity increased by 49.7% between 1993-1998. Wages increased by 54.8% in the same period. (see table 4)

Table 4: Competitiveness Indicators (% changes)

HUNGARY	1994	1995	1996	1997	1998	1993-98
Gross Manufacturing Output	9.3	5.0	3.4	14.8	16.2	58.4
Manufacturing Productivity	7.3	10.9	9.0	14.3	8.6	61.1
Real Wage in Manufacturing (PPI-based)	7.7	-3.8	-0.6	3.6	7.4	14.7
Real D-Mark Exchange rate (CPI-based)	-1.6	-6.8	5.6	9.4	0.3	6.4
D-mark unit labour costs	-3.6	-19.1	-3.4	0.6	-4.7	-27.8
POLAND						
Gross Manufacturing Output	13.7	11.6	9.8	12.8	6.7	67.8
Manufacturing Productivity	14.0	7.0	10.0	12.1	6.3	60.0
Real Wage in Manufacturing (PPI-based)	10.1	5.4	14.5	12.1	8.4	61.4
Real D-Mark Exchange rate (CPI-based)	1.4	4.5	11.7	7.0	5.4	33.5
D-mark unit labour costs	-6.2	2.9	9.0	3.0	3.2	11.9
CZECH REPUBLIC						
Gross Manufacturing Output	0.1	8.2	5.5	6.4	2.5	24.6
Manufacturing Productivity	4.9	11.1	9.6	11.1	5.6	49.7
Real Wage in Manufacturing (PPI-based)	11.1	8.7	11.9	8.4	5.6	49.7
Real D-Mark Exchange rate (CPI-based)	6.7	2.8	10.2	5.1	9.3	38.7
D-mark unit labour costs	11.3	1.5	10.0	0.9	4.3	30.8
SLOVENIA						
Gross Manufacturing Output	6.7	2.9	0.8	0.2	3.9	15.2
Manufacturing Productivity	11.8	8.4	6.7	4.5	5.4	42.4
Real Wage in Manufacturing (PPI-based)	9.8	4.7	7.3	6.2	5.0	37.6
Real D-Mark Exchange rate (CPI-based)	1.5	7.1	-0.5	3.9	4.2	17.2
D-mark unit labour costs	-2.1	3.7	-1.6	4.8	2.8	7.6

Source: Transition Report 1999, European Bank for Reconstruction and Development

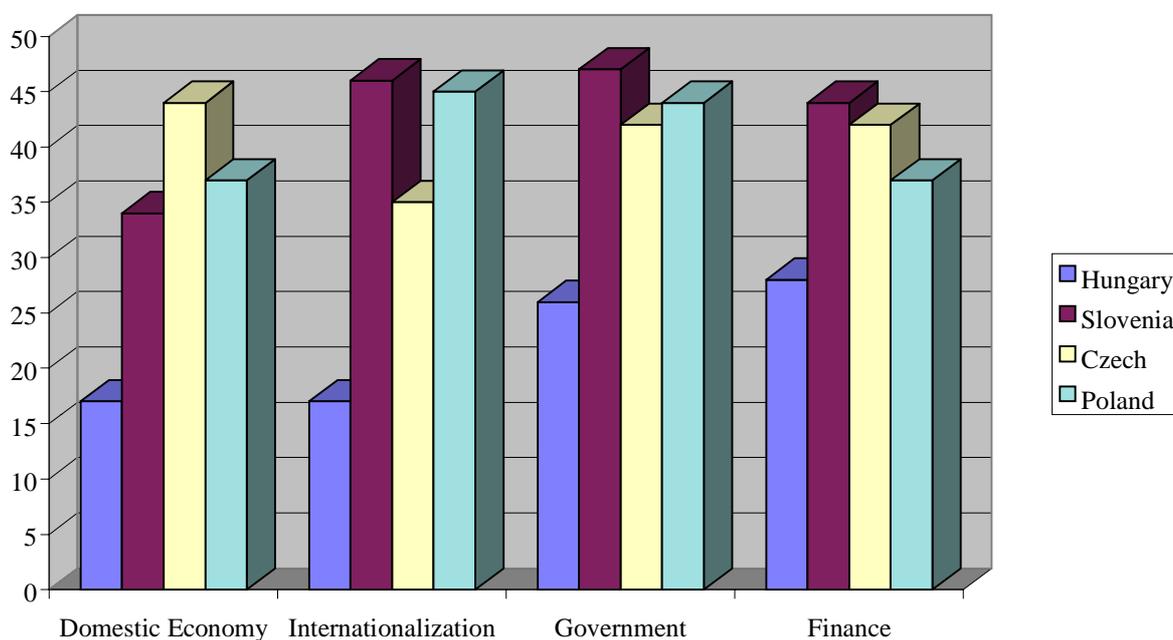
Slovenia's wages are much higher than in other transition countries. Every increase is problematic in terms of competitiveness and for the attraction of foreign investment. Between 1993-1998 manufacturing productivity grew at a faster rate than wages, yet D-mark unit labour costs increased by 7.6% in this period.

Multinational companies are contributing to the improvement of the ranking of the Central European countries. The future of these countries depends to a great extent on networking of multinational companies with small local companies.

In 1995 fifty-two (52) of the 100 biggest companies were privately owned and only 17 had a foreign investor. The highest growth rates are achieved, in the main, by car producers. The most important of these is Germany's Volkswagen, whose brand Škoda is the most important foreign investment in the region and the third biggest company in Central Europe.

In 1998 the income of the 100 biggest companies in Central European transition countries increased by 4%. Of these, 56 are privately owned and 26 have a foreign investor. Companies which have a foreign investor achieved average growth rates of 36%. Furthermore, other Volkswagen plants are achieving high growth. Audi Hungary (Gyor) achieved 163% growth in 1998, and improved its ranking from the 40th to 7th. Volkswagen Slovakia achieved a growth rate of 149% and improved its ranking from the 60th to 17th. Renault is also strengthening its presence in Central Europe. Its branch in Slovenia, Revoz, achieved a growth rate of 28% in 1998 and improved its ranking from from the 41st to 25th.

Graph 2:
COMPETITIVENESS RANKING OF CENTRAL EUROPEAN TRANSITION COUNTRIES



Source: IMD 1999

4.1 The Domestic Economy

In terms of the domestic economy Hungary is ranked first of the transition countries. Its advantages are: a low cost of living; relocation of production; GDP growth and good economic performance in 1999. Its weaknesses are: low level of GDP; low gross investment; and low agricultural growth. Hungary's openness to foreign investors has improved its competitive position. Poland is ranked behind Slovenia. Its advantages are: the growth of private consumption; high GDP growth; and, good estimates for 1999. Its weaknesses are in the main: low savings; a large grey economy; the low purchasing power of its population; and, the inflexibility of its government and companies. The Czech Republic is ranked 39th, a position which mirrors this country's economic results in 1999. Its weaknesses are: its level of economic restructuring has proved insufficient in increasing competitiveness; a high growth in public consumption; low gross investment; and the stagnation of its manufacturing base.

4.2 Internationalization

In terms of the internationalization of the economy Hungary is ranked the highest of the transition countries at 17th place. The reasons for such a high ranking are: equal treatment of foreign investors; the high growth of Hungarian investments abroad; high savings; and high GDP growth. The Czech Republic is ranked 35th, a better ranking than Slovenia. The reasons for its high rank are: high export growth; high incomes from tourism; and the high

share of commercial services as a proportion of its exports. Its weaknesses are: low outward foreign investment growth; and, a balance of payments disequilibrium. Poland has achieved a better rank than Slovenia, even though its ranking is still low. Its advantages are: a high growth rate in its export of goods; foreign investment growth; and, high incomes from tourism. Its weaknesses are: the unequal treatment of domestic and foreign companies; migration; legislation; and, a balance of payments deficit.

4.3 The Functioning of the Government and the State Administration

The reorganization and rationalization of state administrations is one of the main pre-conditions for accelerating the progress of transition countries. Achieving a consensus between social partners about development goals is not enough. State administrations must be capable of implementation and ensuring the conditions for their achievement. The principle of openness, transparency and participation must be widened for the process of implementation which means a greater responsibility for the proper functioning of state administrations.

The guidance given by state administrations needs more legal order and a greater degree of freedom in order to do business and be creative. On one hand, state administrations don't provide the necessary regulations to inhibit activities that are not in the public interest. On the other hand, they provide regulations which prevent the possibility of corruption and disorder, but which block entrepreneurial freedom and limit creativity. (Gmeiner, 1999).

In terms of this measure Hungary is also pre-eminant amongst transition countries. Its advantages are: a low level of company profit tax; a flexible labour market; the speedy reaction of the political system to economic changes and, a high level of political consensus. Its weaknesses are: high income taxes; low foreign currency reserves; and, a poor system of social security. The Czech Republic is ranked 42nd. Its advantages are: low levels of internal and external country debt; and, good labour market regulations. Its weaknesses are: legal regulations' hinderance of competitiveness; and, inadequate management of the public sector.

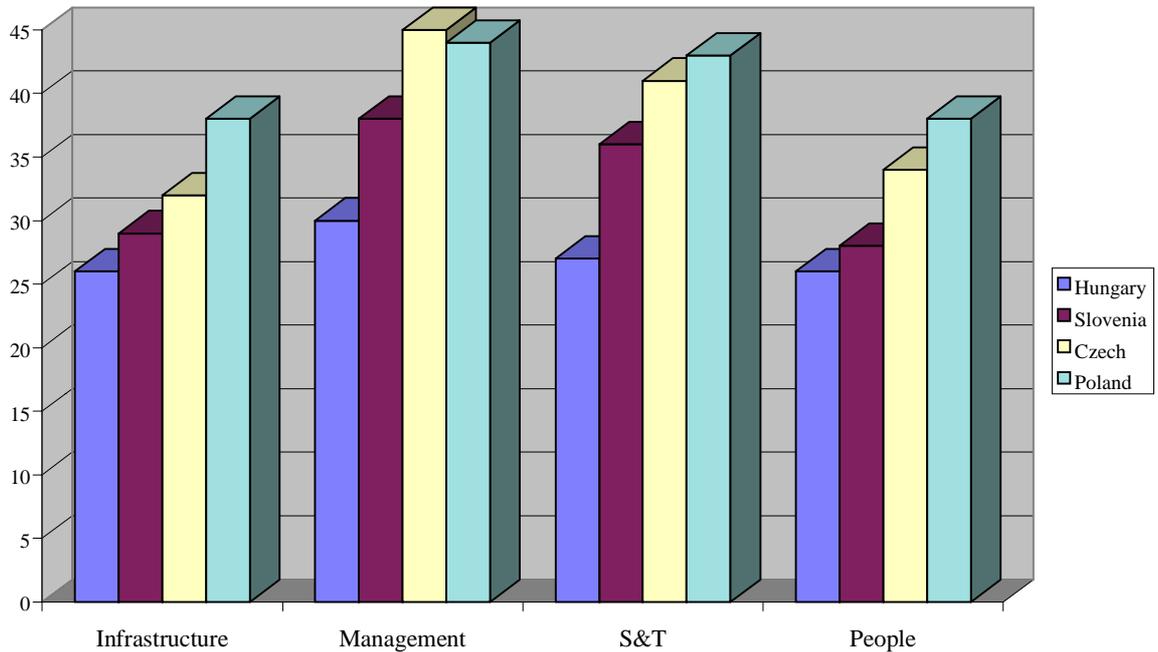
Although Poland has made considerable progress with regard to the restructuring of its economy in the past few years, its evaluation in terms of the functioning of the government has not improved. Poland's 'quiet' closing of the economy to foreigners has negatively influenced its position in terms of competitiveness. Its positive aspects with regard to competitiveness are: the low level of employee social security contributions; the level of state subsidies; and, its low level of internal debt. Its weaknesses are: the high level of employer social security contributions; the low level of social security; and, its inadequate legal framework for engendering competition.

4.4 Finance

Hungary, of all the transition countries, has most quickly opened its banking and insurance markets. Its adjustment of its competition legislation to European standards has been rapid. The result of such openness has gained it an overall rank of 28th. Its position rests on the sound policy of its central bank. Its weaknesses are: the low level of domestic companies listed on the stock exchange; inadequate stock exchange capitalization; its lack of a big bank when compared to European standards; and, its low level of non-cash business.

Poland is ranked 37th. Its advantages are: good central bank policy; and, the availability of speculative capital. The Czech Republic's is ranked lower. One of the reasons for this is the financial situation of its companies. Its advantages are: a low interest rate for short-term credit, the extent of its banking sector's wealth; and, the fact that many domestic companies are listed on its stock exchange. It's weaknesses are: stock market bonds don't ensure sufficient financing for companies; the bad financial situation of companies; undefined shareholder rights and duties; and, the low availability of credit.

Graph 3:
COMPETITIVENESS RANKING OF CENTRAL EUROPEAN TRANSITION COUNTRIES



Source: IMD 1999

4.5 Infrastructure

A well developed infrastructure stimulates the development of economic activity. The privatization of key sectors of the infrastructure is definitely one of the main problems facing transition countries. EU candidate countries are, on the one hand, obliged to harmonize their legal order with the EU's, on the other hand, they must solve their own economic problems.

Hungary's high ranking of 26th place is somewhat surprising. Its primary advantage is its extremely high level of investment in telecommunications. Hungary ranks first with regard to investment in telecommunications in the period 1995 to 1997 (2.3% of GDP). Hungary is ranked 5th with regard to the density of railways (84.2 m/km²) and 6th in terms of road density (2.02km/km²). Its weaknesses are: a poorly developed air traffic control system; the growth of electricity consumption exceeds GDP growth; poor health service infrastructure; and, great regional development infrastructure differences.

Slovenia's ranking in 29th place is rather good. Slovenia has no particular weakness in the field of infrastructure. The Czech Republic is ranked 32nd. Its advantages are: it is ranked first in terms of railway density; 2nd in telecommunications investment; and, it is ranked 3rd in terms of electricity prices. Its weaknesses are: a poor record in terms of electronic management development; the growth of electricity consumption exceeds GDP growth; and, a poorly developed air traffic control system.

Poland's infrastructure is rather underdeveloped compared to West European standards. Its advantages are: low electricity prices, railway density, GDP growth exceeds the growth of electricity consumption. Its weaknesses are: its infrastructure in the area of water is not sufficient for the needs of the economy; a distribution of goods and services and its unsatisfactory maintenance of the infrastructure.

4.6 Management

Hungary ranks highest in terms of management competitiveness indicators. The reason for such a high ranking is the presence of large amounts of foreign capital which demands good management, mainly in the form of foreigners and domestic highly skilled managers. Its advantages are: productivity growth; a cheap labour force; its low management price; and that the entry of new companies onto markets is seen as normal. Its weaknesses are: its social security system; the unequal skills of domestic and foreign managers; and low productivity growth in its industrial sector.

Slovenia is ranked 36th in terms of productivity. The increased productivity of Slovene industry over the past few years is a result of redundancies and modest technological progress. Slovenia is ranked low in terms of corporate performance (40th) and management efficiency (41th).

Polish management is ranked 44th. Its advantages are: low service sector wages; low staff turnover; a high growth rate of general productivity; and low management costs. Its

weaknesses are: a poor availability of experienced managers; a lack of international experience; and and inadequate employee training.

Czech management has dropped from 42nd to 45th place in the last year. The reason for this is the stagnation of some Czech companies. Its advantages from the pure competitiveness criteria are: a cheap labour force; and cheap management. Its weaknesses are: low public confidence; improper management solutions; and, a lack of international experience.

4.7 Science & Technology

The efficient and innovative use of existent technologies can bring about competitive advantage, but the state or the company which doesn't invest in R&D can not have a stable competitive future. The EU Commission, in its annual reports, states that this is the case in Central European transition countries as technological development and innovation are lagging behind. Industrial support of R&D and innovation is weak. The reason for this situation is a result of rigid institutional systems and existing business environment. The inclusion of the transition countries in the EU's development programmes and the presence of international companies in these countries are improving the situation in the field of R&D. Hungary is ranked a rather high 27th place in the field of science and technology. Its advantages are: its ample pool of experienced engineers; a strong science presence in its education process; and, its reallocation of R&D capabilities. Its weaknesses are: poor patent law; and, a low level of R&D expenditure, both publicly and privately.

The Czech Republic is ranked behind Slovenia, but the differences aren't great. The Czech's Republic's advantages are: a strong science presence in its education processes; its successful introduction of patent law; and relatively high expenditure on R&D. Its weaknesses are: its strong centralization of R&D capacities; insufficient financial resources; and its insufficient inclusion of young people in the field of R&D. The situation in Poland is similar to other transition countries. Its advantages are: its successful introduction of patent law; and, the great extent of R&D staff in the economy and country as a whole. Its weaknesses are: insufficient financial resources; a strong centralization of R&D capacities; and, the lack of cooperation between universities and the economy.

Integration processes are for small economies, such as Central European ones, very important. The strengthening of competition on domestic markets and the need to export will force companies to accelerate their R&D activity. The opening of Central European markets is an additional pressure on local companies. In the future there will be fewer local markets, and companies will have to face up to the concomitant new challenges.

4.8 Human Resources

There is a strong belief that the human capital element is the main source of competitive advantage within modern economies. Porter (1997) thinks that, at present, this is the only way to gain competitive advantage in conjunction with constant innovation and improvements resulting from strategic decision making. That is why life-time education and the development of employee creativity are of primary importance.

The good placing of Central European transition countries is the consequence of tradition, good education systems and culture. Hungary is ranked 26th. Its advantages are: a well developed education system; education at university level is market led; and, the availability of an ample pool of experts on the labour market. Its weaknesses are: a high level of alcohol and drug abuse at work; and, a high infant mortality rate. The Czech Republic is ranked 34th. Its advantages are: a high level of health care; a high employment rate (47% of the population in 1998 in comparison to Slovenia's 45%); and, the strong presence of women in the labour force. Its disadvantages lie in its poor and inequitable level of employment possibilities.

Poland's placing in terms of human resources is worse. Its advantages are; a reasonable presence of women in the labour force; its high inclusion of young people in university education; and, a high employment rate. Its weaknesses are: the inflexibility of its population to new market challenges; the abuse of drugs and alcohol at work; and, the increase of crime.

5. THE MAIN FEATURES OF SLOVENIA'S COMPETITIVENESS POSITION

Economic stabilization, which is the basic precondition for higher growth, and the restructuring of industries have been to a great extent achieved in Slovenia. Inflation has been reduced to single figures; public finances and the balance of payments were, between 1997 and 1998, practically balanced. Between 1998 to 1999 there were drastic deteriorations in terms of foreign debt and the balance of payments current account. The main barriers to a relatively low rate of growth are insufficient competitiveness in the business and financial sectors, and rigid price mechanisms. The growing deficit in the social sector will also be difficult to bridle without radical reforms. The success of reforms will be unachievable without the concomitant increase in the business and financial sectors' competitiveness.

The companies which have made considerable progress in terms of restructuring are making profit, and it is stimulating to know that most of them intend to continue this process. The correctness of such decision making is confirmed by the still rather low evaluation of Slovenia's present sources of competitive advantage which indicates that there is further opportunity for additional improvements in the competitive capability of Slovene companies (Dmitrović, 1999).

Slovenia is ranked 34th in terms of the group of indicators which concern the domestic economy. Its high ranking rests on investment, final consumption, economic efficiency and

the positive nature of economic indicator forecasts for 2000. Slovenia's business sector, has until recently, functioned at a loss. It is not negative added value, which was traced at the beginning of the transition process of some central and eastern European countries, but the results for 1994 to 1998 show that the process of disinvestment has continued. Foreign and domestic owned private companies business results have the best. The maintainance of large unprivatized companies and the monopolies limit existence of competitive forces; besides this, they inappropriately absorb great levels of human and financial capital. The freeing up of these resources is a necessary precondition for the improved functioning of the private sector, particularly in terms of restructuring manufacturing, electricity and some service activities, such as, financial services and telecommunications.

To solve these problems Slovenian government will have to concentrate on the reform of the financial sector and improvement of the conditions which facilitate competition. To these ends special attention must be placed on the liberalization of public sector and demonopolization.

Slovenia is ranked above average in the following fields: the domestic economy (34th); infrastructure (29th); and, human factors (28th). It achieves an average ranking in terms of management (38th); and, science and technology (36th). In terms of the internationalization of the economy (46th), state administration (44th) and finance (44th) it is badly placed.

Slovenia's biggest advantages in the observed period were: high GDP growth (3.9% in 1998), a good import-export ratio (107.8 between 1994 and 1997); low company profit tax rates (25% in 1998); a positive growth in general productivity (12.41% GDP per employee growth in terms of purchase power in 1998); its high inclusion level of women in the economically active population (46.38% in 1998); high export of goods as a proportion of GDP (44.84% in 1997); and, its high level of export of commercial services as a proportion of GDP (10.19% in 1997).

Slovenia's major weaknesses in terms of international competitiveness were: low domestic savings (23.8% of GDP in 1997); the rather high extent of the grey economy (20-25% of GDP between 1995 and 1997); its policy of exchange rate appreciation (survey-46th); national protectionism (survey-44th); state interference in the economy (survey-47th); the high level of state economic aid of 3.54% of GDP in 1997); its legal regulation of employment (survey-47th); the poor access of foreign financial institutions to the Slovenian market (survey-44th); the bad access of Slovenian financial institutions to foreign capital markets (survey-46th); unreasonably high managerial costs (survey-44th); weak inter-company cooperation (survey-40th); a poor environment for innovation (survey-46th); a lack of cooperation between companies, institutes and universities (survey-46th); and, a lack of highly qualified experts on the labour market (survey-46th).

In recent years Slovenia has considerably opened its market, mainly as a result of EU pre-accession strategy. The EU attentively observes what is happening in candidate countries in the field of competition. The EU's position regarding state aid is that candidate countries have not yet split with the recent past, and haven't learned how to rationally place state resources into the economy according to the rules of the WTO and in line with EU directives. The vanquishing of old habits in the field of subsidies is one of the pre-conditions

for EU membership. State aid in Slovenia exceeded 3% of GDP in 1998 but at declined in according to the EU directives 1999.

The timetable for the EU 1996-2000 period shows the movements in global competitive ranking of Slovenia's main EU trade partners (Germany, Italy, Austria, France), where Germany has in the main improved considerably.

Table 5: The International Competitiveness Ranking of Slovenia's most important Trade Partners

IMD - International Competitiveness	1996	1997	1998	1999	2000
Germany	10	14	14	9	8
Italy	28	34	30	30	30
Austria	16	20	22	19	18
France	20	19	21	21	19

Source: IMD 2000

Slovenian policy measures regarding the increase of international competitiveness (macroeconomic stabilization, the building of infrastructure, the opening of financial markets and the harmonization of legal order) are long-term in nature, that is why we shouldn't expect considerable short-term improvements. The IMD places great importance on institutional factors, such as the functioning of the government, internationalization, and the financial system. As a result, it is expected Slovenia's placing to improve in the next years.

6. CONCLUSION

At the beginning of 1999, the IMD, with the help of its partner institutes, evaluated the synthesis of national competitiveness on the basis of hard data (quantitative indicators) and qualitative evaluations from the questionnaire replies it received from managers. Slovenia is ranked 40th, which we assess as a rather realistic competitive situation when compared to the other 46 analyzed countries.

Slovenia's rank is lower than Hungary's, and higher than Poland's and the Czech Republic's. Poland, the Czech Republic and Hungary only achieve better results than Slovenia in particular areas. The reasons for this lie in the different dynamics in terms of privatization and the quality of economic restructuring the access to associated membership status with the EU, NATO enlargement, the beginning of negotiations for full EU membership and the harmonization of legal order.

Our simulation of Slovenia's rank shows that if it was to improve in terms of 20 lowest indicators to the average its overall rank would be 32th. Although this is a theoretical estimation it is not negligible in terms of economic policy making. Besides Slovenia, the Czech Republic has the the greatest possibility for improvement, whilst the other analyzed countries have in the short term less room for manoeuvre.

Table 6: The possibilities for world competitiveness rank changes of Slovenia and comparable countries

SIMULATION OF IMPROVEMENT	IMD 2000	IMD 2001
FINLAND	3	2
IRELAND	7	5
NORWAY	16	14
HUNGARY	27	25
PORTUGAL	29	25
GREECE	32	30
SLOVENIA	35	32
THE CZECH REPUBLIC	37	32
POLAND	40	35

Source: IMD 2000

The relationship between economic growth and globalization in small open economies is evident. The more economic growth increases the greater is the need to export and for internationalisation. Because of barriers to economic growth German global competitiveness decreased in 1997, and between 1996-1998 in the Czech Republic. Government measures and the measures of the Bank of Slovenia were, in the observed period, intended to stabilize the economy and achieve macroeconomic balance. Furthermore, the state was actively involved in the restructuring of Slovenia's large industrial companies in the energy and capital intensive sectors. That is why Slovenian competitiveness during the period of privatization, without the participation of foreigners as strategic investors, resulting from privatization law, hasn't improved much. The real conditions for the improvement of Slovenia's competitiveness appeared when the process of privatization in the real (non-service) sector was concluded.

This present position in terms of international competitiveness is the consequence of the long-term negligence of investment in technological development, innovation, and the restructuring of production programmes. This low efficiency of R&D investment is just one of the reasons behind Slovenia's technological laggardness and its achieved competitiveness. Among other reasons there are Slovenia's smallness, the lack of capital concentration and unsatisfactory inclusion of entrepreneurs into the international networking. Such a situation is the consequence of a deficiency in terms of ownership structure, the absence of appropriate corporate governance, and the unfinished process of industrial restructuring. Slovenia still has a very high share of labour and energy intensive exports in comparison to technologically intensive and market differentiated products and services.

The increase in the international competitiveness of transition countries is correlated with the process of integration to EU. The status of associated membership removes some non-competitive barriers and accelerates market liberalization. The formal association of Slovenia (February 1st 1999), mainly accelerated the change towards the increase in global competitiveness in areas such as internationalization, the functioning of the state administration and financial markets. As Poland, the Czech Republic and Hungary achieved

associated membership before Slovenia, these areas are better harmonized with many EU directives and its "acquis communautaire".

The greatest influence in terms of Slovenia's international competitiveness in 1999 is definitely the high rate of economic growth (4.9% in 1999). Profit levels have increased and outweigh losses. The most important factor was the introduction of value added tax. Besides a diminishing of the grey economy, the introduction of VAT helped the "consumption fever" of the second quarter of 1999 which positively influenced economic growth. In the second quarter of 1999 economic growth was over 7% compared to the same period in the previous year. Some progress is evident in the judicial system because the rate of judicial reminders has decreased. Slovenia has accelerated its acceptance of the EU's legal order. The EU's competition legislation causes greater transparency in terms of state aid in the economy (in 2000 state aid is only to be given in accordance with compulsory EU schemes). There are two promising measures which should increase Slovenia's standing in terms of international competitiveness; the reform of the pension system and the government programme to stimulate FDIs.

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