

**Intensification of East–West Relations  
in the Process of EU Enlargement:  
the Case of Austria / Slovenia**

Joint Report

by

**The Vienna Institute for International Economic Studies (WIIW)**

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and the

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## Executive Summary

*Slovenia is the smallest but economically most advanced country among the EU accession candidates bordering Austria. Its per capita GDP expressed in purchasing power parities is the highest among the candidate countries, corresponding to 70% of the EU average or 64% of the Austrian value in 1999. Thus, Slovenia has reached the level of Portugal and already exceeded the level of Greece. Unlike in the case of Hungary and Czechoslovakia, the movement of people and goods between Slovenia (then as part of former Yugoslavia) and Austria was never subject to major restrictions in the past. Despite the favourable starting position bilateral trade between Austria and Slovenia developed less dynamically than e.g. trade with Hungary over the last decade. The share of exports to Slovenia in Austria's total exports, though somewhat increasing, amounts to less than 2%, that of imports from Slovenia in total Austrian imports to less than 1%. From the Slovenian perspective Austria ranks fourth among the country's most important trading partners. Exports to and imports from Austria account for some 7% of total exports and 8% of total Slovenian imports. Austria traditionally reports trade surpluses, the balance of services turned negative from 1997 onwards which is mainly due to Austrian cross-border purchases in Slovenia.*

*As concerns foreign investment in Slovenia, Austria ranks first: in 1998, 37.5% of the FDI equity stock came from Austria – up from 19% in 1993. The bulk of Austrian FDI in Slovenia is directed towards trade and other services sectors (in the banking sector the Austrian involvement dates back to 1991). Investments in the production sector are of minor importance.*

*The southern border region is the most heterogeneous among the Austrian border regions, encompassing the major Carinthian tourist destinations as well as peripheral areas of Styria. Calculations of the GDP per capita in the border regions compared with the respective national average indicate that the economic level in Western and Southern Styria and Lower Carinthia reaches only about 60% of the Austrian average, Eastern Styria 55%, while the economic level of Klagenfurt-Villach is similar to the Austrian average. In the past decade there were marked differences in performance between the two Austrian provinces as a whole. While Styria was successful in overcoming a massive structural crisis, Carinthia developed below average in the 1990s. It is considered a problem region with high levels of unemployment. As opposed to the other regions of eastern and south-eastern Austria, Carinthia was not able to make effective use of the opening of the borders for a new positioning of its economy.*

*In Slovenia as a whole, regional disparities are not as pronounced as in Austria. Among the border regions, In Pomurska, the least developed border region, has a level of GDP per capita of about 78% of the Slovenian average, Podravska and Koroska 82% and 86%*

respectively, while the two economically more advanced border regions Gorenjska and Savinjska record levels of 92-95% compared with the national average.

*In all Austrian regions along the border with Slovenia – except Klagenfurt-Villach – the agricultural sector plays a more important role than in the national economy (measured as a share of regional GDP). The proportion of the secondary sector in Lower Carinthia and in all Styrian border regions is also higher than the Austrian average. In most regions, again with the exception of Klagenfurt-Villach, the services sector is less developed than the national average. Similar to the Austrian side, the Slovenian border regions show an uneven picture. In all regions except Gorenjska, the share of agriculture in total output exceeds the national average and is particularly high in Pomurje, bordering Styria. The industrial sector is of much more importance on the Slovenian than on the Austrian side of the border as there exists a long tradition of large enterprises in the steel and metalworking sectors and in mining. On the Austrian side, industry is concentrated in much smaller entities in different low-wage branches. Graz is the only city in the border region providing for an industrial potential and tradition comparable with Maribor and therefore economic co-operation is most likely to evolve between the two in the future. Apart from Maribor, industry is most concentrated in traditional industrial zones such as Jesenice, Kranj, Celje, and Velenje. The main industrial branches are basic industry, production of electrical equipment, and machinery and equipment. The highest concentration and most dynamic development of services is in the urban areas with their financial and trade centres. Tourism is an important economic factor in the north-western part of Slovenia, but also in the Savinjska region with its health resorts.*

*Similar to most Austrian regions bordering CEECs, employment in most districts bordering Slovenia developed more dynamically over the last decade than the average rate of the respective province and the national average. Employment growth was, however, most pronounced in the Styrian part of the Austrian border region, associated with the overall increase of economic activities. Conversely, Slovenia in general and the border regions in particular were suffering from heavy job losses over the 1990-1997 period; the regions of Podravska and Gorenjska were (together with Zasavska and Karst) affected the most. The unemployment rates in the Podravska region is highest among all Slovenian regions and is still slightly on the increase. Women and young people are most affected by unemployment. Most of the unemployed are unskilled and semi-skilled.*

*Experiences after the opening of the east have shown that on the labour market in Styrian border regions (there is no detailed information available for Carinthia)*

- *men have benefited more than women from employment increases. There is some evidence that in border regions there is an above-average tendency to substitute foreigners for domestic female labour force;*

- *the competitive pressure in industry triggered by imports from the east affects primarily wages of non-mobile labour force and the employment and unemployment risk of older or poorly qualified people and low-wage earners;*
- *highly-qualified, mobile, young and higher wage earners were more likely to handle the competitive pressure or could even benefit from it;*
- *the increase of foreign workers has entailed an intensification of already existing disparities on the labour market. Lower qualified workers and those with unstable jobs, who are repeatedly affected by unemployment, get increasingly under pressure.*

*Based on these experiences it is expected that in the wake of EU enlargement, youth unemployment will decline, while at the same time unemployment of older persons may increase. Thus, the labour market in the border regions would adjust to the province average. However, the favourable employment effects for young people can be fully taken advantage of only by improving the qualification of young people in the border regions. Otherwise substantial competition can be expected from (Northern) Slovenia which offers a good pool of skilled labour, with its important training centre in Maribor.*

*Contrary to the situation in goods trade, where the association agreements achieved far-reaching liberalization, concrete steps towards liberalizing services trade between the EU countries and Slovenia have been lacking so far. Looking at the location component there seems to be a specific threat for the services sector in the Styrian border regions, as all indicators show an unfavourable situation: according to a regional comparison for Austria the small and business services sectors on the south eastern border of Austria are characterized by below-average productivity, a high wage tangent combined with low wage and investments rates. For Styria as a whole, Slovenia's accession to the EU can be expected to have no significant impact for the small and handicraft businesses. Because of the higher competitive potential and the higher wage differences, the impact of an EU accession of Hungary might exert more pressure than that of Slovenia.*

*Supportive preparatory strategies on the Austrian side should therefore facilitate the necessary structural change in the labour-intensive tertiary and industrial sectors in border regions. On the Slovenian side, supportive strategies should help business services suppliers to accumulate firm-specific competitive advantages, in order to transform the prevalent inter-sectoral patterns in service trade into more intra-sectoral ones in the longer run.*

*The majority of Slovenes residing in Austria are in the labour force. This is typical for migration processes which emanate from demand pull factors, i.e. the job prospects in Austria are the main driving force for migration, not environmental, political or other push factors, which tend to result in the migration of a representative demographic sample of the*

*total population. Slovenes tend to work in the southern part of Styria (e.g. Graz) and Carinthia. The stock of Slovenes with official work permits in Austria amounted to only 6100 in 1998. This might be confirmed also by the fact that the Slovenian economy has reached a high degree of macroeconomic stability and a much higher income and wage level than any other of the transition economies. Furthermore there is evidence of low mobility of Slovenes in the past. Survey results suggest that Slovenian migrants are young and highly skilled persons, thus the bulk of people surveyed found work matching qualifications. After the liberalization of the labour market in the wake of Slovenia's accession to the EU, there may be an increased inflow of labour to Austria due to a certain backlog of migration. Given the limited dynamism of the Austrian regions bordering Slovenia, this inflow can be expected to be transitory.*

*As concerns transport, major traffic routes pass through Slovenia to south-east Europe and the Middle East. For several years the EU has lent support to the expansion of the transport infrastructure in Slovenia, in particular where surface routes to Greece are concerned. With respect to transit traffic, Slovenia and the EU countries are on an equal footing. Austria is also interested in high-capacity links to the Adriatic sea ports.*

*Over the next six years Slovenia will close the gaps in its motorway network to a large degree. The rail links running along the European corridors are being continuously upgraded.*

*At present, by far the greater part of the traffic crossing via Slovenian-Austrian border posts is transit traffic between Germany and Slovenia or traffic between Austria and Slovenia destined for the Adriatic sea ports. Upon Slovenia's accession to the EU the movement of persons and goods to and through Austria will increase.*

*The greater problem confronting the traffic sector in Slovenia and Austria alike will clearly be the growth in south-east transit traffic once the situation has normalised in Yugoslavia and the traffic routes through that country have been re-opened. In the interests of an environmentally friendly management of that traffic an endeavour should be made to expand the rail infrastructure in good time and to increase the capacities of the railway companies in both Austria and Slovenia.*

*Overall the situation can be summarised in the following way: Slovenia has achieved the highest standard of living of all the candidate countries. It has had a particularly good record of achieving macroeconomic stability since the early 1990s. Though facing significant structural problems on the labour market the ILO unemployment rate has remained almost stagnant for years, at a level below the EU average. Industrial structures are such that they provide a good potential for complementarities with neighbouring Austrian regions. While the Austrian border regions are rather peripheral regions, some of*

*the Slovenian border regions, although undergoing significant processes of restructuring have an important potential for industrial development and inter-linkages with the Austrian economy and offer a good pool of skilled labour. Migration pressure is considered of a low order compared to some of the other applicant countries. Transport routes have an important scope for further expansion and strategic transport policy decisions (at the bilateral and at the European level) are essential to make sure that the expected growth will be mastered in a form that will limit its negative impact.*

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## **Joint statements in the area of macroeconomic developments, regional economic developments, labour markets and migration**

### **P1a Short- and medium-term forecast for Slovenia**

Economic recovery in Slovenia started in mid-1993 and gained further momentum from 1994 onwards, reporting yearly growth rates of 4-5%. Measured in PPS (purchasing power standards), Slovenia's per capita GDP is the highest among the EU candidate countries, corresponding to 73% of the EU average or 65% of the Austrian value in 1999. Thus, Slovenia has reached the level of Portugal and already exceeded the level of Greece.

The external conditions for growth will, according to available economic growth forecasts (prepared by IMF, OECD, or experts engaged in the LINK project, or prepared by various economic institutes), improve in 2000 and will remain fairly favourable up to 2003. Due to the smallness, openness and strong links of Slovenia's economy to EU countries, developments in those economies will be crucial for Slovenia's growth performance. Furthermore gross capital formation will have to play a central role among the components of domestic demand (as in previous years). Given the relatively modest foreign direct investment inflows in previous years (with the possible exception of 1997), Slovenia has still not utilized this potential push for economic development.

Official Slovenian forecasts put economic growth in 2000 and 2001 at 3.75-4% annually. The target development scenario until 2003 anticipates successful accession to the EU and the strengthening of an effective institutional framework. Acceleration of economic growth to between 4.5% and 5.5% annually in the period after 2001 is based on the assumption of a more pronounced increase in exports (including exports of services, which have declined in recent years), enhanced investment efficiency, rising FDI inflows and a moderate increase in domestic demand. In case of a less favourable international environment and a less stable domestic environment for foreign or domestic investment, GDP growth will remain at 3-4% per year.

## **P1b Short- and medium-term economic prospects of Austria**

The improving economic environment in the EU has a positive impact on Austria. Over the forecasting period 2000-2004 it can be expected that real GDP will grow by 2.5% p.a., faster than in the second half of the 1990s (+2.1%), but somewhat less than the EU average as a result of budget consolidation measures. The growth cycle should reach its peak in 2001 and then decline for the next two years. A new upswing is expected thereafter. The projected economic growth path should allow the employment target, spelled out in the National Action Plan for 2002, to be reached by 2001 – if only, however, with regard to the number of employment contracts, and not of full-time equivalents, given the strong expansion of part-time work. The labour market situation will continue to improve. An accumulated total of about 90,000 jobs will be created between 2000-2004. Employment in manufacturing should, in the medium term, be able to stabilise, construction will decline in the medium term and services will continue to expand rapidly.

The rate of unemployment (EU definition) will decline to 4.1% of the labour force by 2001. By 2004 an unemployment rate of 31/2%, the target spelled out for 2002 in the National Action Plan, can hardly be expected unless labour market policy measures are stepped up significantly. Inflation should continue at a very low rate (1% p.a. on average). This is mainly the result of moderate wage growth in response to increasing competition from the EU, an expected stabilisation of the relatively high crude oil prices as of 2000, and further liberalisation and price cuts in the telecommunications and power utility industries. The introduction of the Euro as the EU's currency in 2002 will be the main institutional change during the projection period. In the medium term, the single currency will have a positive effect on the economies of Austria and the EU. Austrian exporters should be able to continue to improve their price competitiveness over the next years if wage and price increases remain below the EU average. The positive growth prospects will not suffice to solve the budget problems faced by the Austrian government. Additional measures will have to be undertaken in order to conform to the criteria established in Maastricht for Euroland.

## **P2a. Assessment of the overall/macro impact of the EU accession on Slovenia**

EU accession has been the subject of extensive preparatory work culminating in the document "EU Accession Strategy of the Republic of Slovenia" (EU Accession Strategy, 1997) based on several existing documents and studies. Drawing on this strategy and other strategic documents, some crucial questions are raised regarding the costs and benefits of accession to the EU. In fact, it is a somewhat difficult undertaking to distinguish between the effects induced by the essential economic and social policies aimed at completing the country's transition to a market economy and those caused by the need to accede to approximate conditions in the EU. Moreover, the effects of reform will extend beyond the pre-accession period into the post-accession period of transition. The comprehensive estimation of possible costs and benefits (for each macro-economic policy and sectoral structural reform) is still missing.

Research studies on costs and benefits of accession were mainly prepared for specific sectors and only few comprehensive studies analysing the effects of the accession on the macroeconomic aggregates exists. Due to the problems with short time series and parameter estimation, research activities turned to the development of partial or general equilibrium models. Basic findings of these studies are the following: i) the effects of Slovenia's EU accession are highly dependent on the macroeconomic framework set and maintained by the government with its short and long-term actions; ii) the economy that is already very open today certainly can survive the abolition of remaining import duties without profound shocks – further foreign trade liberalization will cause not only the substitution of domestic products with imported ones but also an increase in GDP, employment and exports. There is the prospect for product specialization with an increase in variety and quality of the products offered to the domestic consumers; iii) furthermore, Slovenia's joining the EU is not expected to cause additional problems with an additional rise of unemployment and increased outflow of Slovenian labour force to the EU labour market. There could be even flows in the opposite direction resulting from an increased demand for workers with particular skills in Slovenia.

Simulation results of different models estimate that the possible overall/macro impact of Slovenia's EU accession will be a positive one with differences due to the character of the models (partial-general equilibrium) and used assumptions (competition, economies of scale, specifications of equations, the values of elasticities of substitution and transformation and the behaviour of the government). However this model simulations were all analysing only a fraction (although an important one) of the accession process – further trade liberalization through the adoption of a new customs system, Europe Agreement and the EU Common Customs Tariff.

## **P2b Effects of EU enlargement on the Austrian economy**

Estimates of the aggregate impact of EU Enlargement on the Austrian economy have been made by means of a number of model simulations. The channels through which EU Enlargement is assumed to affect the Austrian economy are:

- direct trade effects: higher growth rates in CEECs (derived from their integration effects) result in increased export growth;
- indirect trade effects: the other (mostly EU) trading partners are also experiencing a slight growth effect from EU Enlargement and hence Austria's exports to these countries are also positively affected;
- terms of trade effect: as CEECs are low cost producers, the fall in overall import prices has both a negative substitutive effect on Austrian producers, but also a positive effect on the overall price level in Austria and hence on real incomes;
- specific effect on increased tourism flows to Austria as real incomes rise in CEECs due to their positive Enlargement effects;
- the impact of increased FDI flows to CEECs: FDI flows stimulate growth (including productivity growth and positive structural change in CEECs) and have positive trade effects on Austria, but there might also be a limited substitutive effect on investment in Austria (the substitution vs. complementarity of FDI on domestic investment and export activity is the subject of detailed research);
- budgetary impacts of EU Enlargement;
- various structural effects on industry and trade specialization, on wage and employment structures, as well as regional effects will be taken up in later paragraphs.

All in all, Austrian model simulations estimated a positive long-term impact of EU Enlargement (in two stages) upon the Austrian economy in the region of a long-run level effect on GDP in the range of 1.3 to 1.7%, a fall in the overall price level of  $-0.9\%$  and a positive effect upon dependent employment of about 27.000 employees. Migration aspects have not been included in these model simulations. The incidence of the net gains from EU Enlargement over time and their structural and regional impact depend, of course, upon the structure of transitory arrangements and upon the extent and effectiveness of adjustment policies.

### **P3 Current state of Slovenian–Austrian economic linkages**

Austria's current account vis-à-vis Slovenia has been in surplus over the whole 1993-1998 period, reaching ATS 6.5 bn in 1998 up from ATS 3.6 bn in 1993. Over the whole period total revenues from current transactions with Slovenia were double as high as expenditures. Over the whole period Austria reported a trade surplus with Slovenia, which was generated in all commodity groups except miscellaneous manufactured articles. In contrast, the balance of services turned negative from 1997 onwards. Trade in services is concentrated on three main items: travel, other business related services (of which transit trade is the dominating segment) and other non-allocated services. In tourism Slovenia attained surpluses over the whole 1993-1998 period, which is mainly due to Austrian cross-border purchases in Slovenia.

In commodity trade, Austrian exports to Slovenia were 2.3 times, imports from Slovenia 2.5 times higher in 1998 than in 1992. The share of exports to Slovenia in Austria's total exports increased slightly from 1.2% to 1.7%, the share of imports from Slovenia in total Austrian imports from 0.5% to 0.7%. Looking at exports per head, Slovenia ranked first in 1997, followed by Switzerland, Hungary and Germany.

According to Slovenian statistics, in 1999 Austria ranked fourth, both, among suppliers to Slovenia and main export destinations of Slovenia. Exports to and imports from Austria accounted for 6.9% of total exports and 7.9% of total Slovenian imports, respectively.

Austria ranks first among foreign investors in Slovenia. In 1998, 37.5% of the FDI equity stock came from Austria - up from 19% in 1993. The bulk of Austrian FDI in Slovenia is directed towards trade and other services sectors (in the banking sector the Austrian involvement dates back to 1991). Investments in the production sector are of minor importance.

Slovenian tourists are only of minor importance for Austrian tourism: over the recent years the share of Slovenian tourists in total overnight stays stood at less than 0.1% p.a., the average duration of a stay at about 2 days. Austrian tourists in Slovenia have – due to the geographical vicinity, historical linkages, better knowledge of the country, cultural similarities, infrastructure and traffic connections – in the last decades been on the third place measured by overnight stays in Slovenia.

#### **P4 The Austrian–Slovenian border region**

The southern border region is the most heterogeneous among the Austrian border regions, encompassing the major Carinthian tourist destinations as well as peripheral areas of Styria. Calculations of the GDP per capita in the border regions compared with the respective national average indicate that the economic level in Western and Southern Styria and Lower Carinthia reaches only about 60% of the Austrian average, Eastern Styria 55%, while the economic level of Klagenfurt-Villach is similar to the Austrian average. In the past decade there were marked differences in performance between the two Austrian provinces as a whole. While Styria was successful in overcoming a massive structural crisis, Carinthia developed below average between 1990 and 1998. It is considered a problem region with high unemployment. As opposed to the other regions of eastern and south-eastern Austria, Carinthia was not able to make use of the opening of the borders for a new positioning.

In Slovenia as a whole, regional disparities are not as pronounced as in Austria. In Pomurska, the least developed border region, GDP per capita reaches about 78% of the Slovenian average, Podravska and Koroska 82% and 86% respectively, while the two economically more advanced border regions Gorenjska and Savinjska record levels of 92-95% compared with the national average.

A comparison of gross wages in the border districts relative to the respective national average shows that the wage gap especially in the Styrian part of the Austrian border zones is higher than in the Slovenian regions bordering Austria. Average gross wages in the Slovenian border areas vary between 85% in Koroska and 95% in Gorenjska as compared with the national value. In the Styrian border districts only Deutschlandsberg reports a value above 90% of the Austrian average, while in all other districts gross wages range between 83% and 88% (of which Hartberg and Feldbach were on the lower end). The disparities in the Carinthian part are less pronounced. With the only exception of Völkermarkt, where the wage level represents only 84% of the Austrian average, gross wages in the other border districts amount to some 91-99% of the national value.

In all Austrian regions along the border with Slovenia – except Klagenfurt-Villach – the agricultural sector plays a more important role than on the national average (measured as a share of regional GDP). The proportion of the secondary sector in Lower Carinthia and in all Styrian border regions is also higher than the Austrian average. In most regions, again with the exception of Klagenfurt-Villach, the services sector is less developed than the national average. Similar to the Austrian side, the Slovenian border regions show an uneven picture. In all regions except Gorenjska, the share of agriculture in total output exceeds the national average and is particularly high in Pomurje, bordering Styria. The industrial sector is of much more importance on the Slovenian than on the Austrian side of the border as there exists a long tradition of large enterprises in the steel and metalworking sectors and in mining. On the Austrian side, industry is concentrated in much smaller entities in different low-wage

branches. Graz is the only city in the border region providing for an industrial potential and tradition comparable with Maribor and therefore economic co-operation is most likely between the two in the future. Apart from Maribor, industry is most concentrated in traditional industrial zones such as Jesenice, Kranj, Celje, and Velenje. The main industrial branches are basic industry, production of electrical equipment, and machinery and equipment. The highest concentration and most dynamic development of services is in the urban areas with their financial and trade centres. Tourism is an important economic factor in the north-western part of Slovenia, but also in the Savinjska region with its health resorts.

Similar as in most Austrian regions bordering CEECs, over the last decade employment in the districts bordering Slovenia (except Leibnitz) developed more dynamically than the average rate of the respective province and the national average. Employment growth was, however, most pronounced in the Styrian part of the Austrian border region, associated with the overall increase of economic activities. Employment grew most impressively in the district of Radkersburg (59%), followed by Fürstenfeld, Feldbach, Deutschlandsberg and Hartberg, while in Leibnitz employment went up by 8.3% only. In Carinthia low economic growth was accompanied by a moderate employment increase over the same period. Again, above-average job increases were reported for the border regions; for instance, in Wolfsberg the number of employed soared by about 24%. Employment growth has been most marked in Klagenfurt-Land and Völkermarkt.

In 1999 Carinthia and Styria ranked second and third concerning the highest unemployment levels among Austrian provinces (according to registration data). The unemployment rates exceed the national average both in the Styrian and in the Carinthian regions bordering Slovenia. The conditions on the labour market are the worse the stronger some districts are dependent on traditional industrial branches and/or on individual enterprises. In the Styrian part of the Austrian border regions, Hartberg and Leibnitz are hardest hit by unemployment, in Carinthia, the districts of Völkermarkt and Wolfsberg.

Slovenia in general and the border regions in particular were suffering from heavy employment cuts over the 1990-1997 period; the regions of Podravska and Gorenjska were (together with Zasavska and Karst) affected the most. The unemployment rates in the Podravska region is highest among all Slovenian regions and is still slightly on the increase. The impact of the economic crisis in Maribor on the neighbouring municipalities has been considerable: the commuters from economically weak agricultural municipalities were the first to lose their jobs (over the last 15 years 20 thousand jobs were lost in the industry in Maribor). Consequently the unemployment rate is very high in all municipalities of the Podravska region. Also in the Savinjska region unemployment exceeds the national average, increasing considerably in 1996 and especially in 1997 and structural change in the region is still going on. Women and young people are most affected by unemployment. Most of the unemployed are unskilled and semi-skilled.

## **P5 Labour market adjustments in Styrian border regions**

In Styria the unemployment structure in the border area is rather different from other Styrian regions: the share of young jobseekers in total unemployed is higher, while that of older unemployed is lower than the province average.

For the Styrian border regions one may conclude that

- the opening of the east has brought about positive employment effects;
- men have benefited more than women from employment increases. There is some evidence that in border regions there is even an above-average tendency to substitute foreigners for female labour force;
- the competitive pressure in industry triggered by imports from the east affects primarily wages of non-mobile labour force and the employment and unemployment risk of older or poorly qualified people and low-wage earners;
- highly-qualified, mobile, young and higher wage earners were more likely to handle the competitive pressure or could even benefit from it;
- the increase of foreign workers has entailed an intensification of already existing disparities on the labour market. Lower qualified workers and those with changing jobs, who are repeatedly affected by unemployment, get increasingly under pressure. Also the wage differential can be assumed to increase.

Based on these experiences after the opening of the eastern markets EU enlargement will affect the Styrian border regions in a different manner, especially with respect to older and younger employees. Accordingly, youth unemployment is expected to decline, while at the same time unemployment of older persons may increase. Thus, the labour market in the border regions would adjust to the province average. However, favourable employment effects for young people can fully take effect only by improving the qualification of young people in the border regions. Otherwise substantial competition can be expected from (Northern) Slovenia, with its important training centre in Maribor.

## **P6 Development of the service sectors**

Contrary to the situation in goods trade, where the association agreements achieved far-reaching liberalization, concrete steps towards liberalizing services trade between the EU countries and Slovenia have been lacking so far. For the bulk of 'embodied' services, which are tied to their user and are difficult or impossible to render across great distances, this reduced export strategies to the delivery by an establishment abroad – a setting which gave rise to asymmetric advantages for Austrian producers: While Austrian services providers were able to improve their position on the Slovenian market by direct investment, providers from Slovenia lacked the competitiveness and financial power to apply similar strategies in Austria. For this, Austria's balance of services vis-à-vis Slovenia has shown a permanent surplus from 1989 onwards.

EU membership of Slovenia will make for a transition to a new and more open integration regime, especially in two modes of providing services, where advantages can be expected for Slovenian producers:

- In retailing, the restrictive provisions governing the import of goods by consumers will be eliminated along with accession. Together with significant cuts in the (time) costs of border crossing by the abolition of border controls, this will give rise to larger incentives for direct imports of goods in line with the price level differences between the adjacent territories.
- In service sectors like trades and crafts the application of the rules of the single market (mutual recognition, no visa, freedom of establishment) will greatly facilitate the cross-border delivery by a move of the producer. A virtually closed system will be replaced by a liberal regime here.

If looking at the location component there seems to be a specific threat for the services sector in the Styrian border regions, as all indicators show an unfavourable situation: according to a regional comparison for Austria the small and business services sectors on the south eastern border of Austria are characterized by below-average productivity, a high wage tangent combined with low wage and investments rates. For Styria as a whole, Slovenia's accession to the EU can be expected to have no significant impact for the small and handicraft businesses. Because of the higher competitive potential and the higher wage differences, the impact of an EU accession of Hungary might exert more pressure than that of Slovenia.

Supportive preparatory strategies on the Austrian side should therefore facilitate the necessary structural change in labour-intensive tertiary sectors in border regions. On the Slovenian side, supportive strategies should help business services suppliers to accumulate firm-specific competitive advantages, in order to transform the prevalent inter-sectoral patterns in service trade into more intra-sectoral ones in the long run.

## **P7 Migration prospects and commuting in case of Slovenia's EU membership**

There is a great degree of uncertainty in the ability to forecast flows of migration and commuting in the case of complete liberalization of labour market access. Austrian migration researchers argue that a gradual loosening of the tight migration regime in advance of complete liberalization of labour market access could help to reduce the backlog and thus facilitate adjustment.

Nonetheless, longer-term integration of the regional economies indicates that it would be 'natural' to reach a certain degree of cross-region migration stocks and commuting flows and a prevention of such flows could hamper the extent to which the benefits of inter-regional integration would be utilized or shift the integration processes exclusively unto other tracks such as relocation of production or increased short-term pressure towards production specialization which might be less desirable from a labour market point-of-view.

Given the uncertainty in this area, Austrian migration specialists do (in the majority) agree that a case for a safeguard clause over a transition period can be made which would allow authorities to react in the case of unexpected macroeconomic or labour market crises on either side of the border and/or to assist the adaptation process in certain branches or regions (although in the Slovenian case this would – in most likelihood – be less necessary than in the case of the other accession candidates). Transitory arrangements should however not be seen as simply 'buffer periods' during which adjustment pressures are simply temporarily delayed but they should be utilized to support in an active way the upgrading of regional production and employment structures (in manufacturing and services) through labour market, industrial and regional policies. The impact of sizeable migration and commuting flows could still be felt in certain vulnerable segments of the Austrian labour force and pro-active and distributive measures should be taken to counter negative labour market outcomes.

In the case of Slovenes the relatively weak economic performance of the Austrian regions bordering Slovenia exert limited pull-forces for migration. Since the economic growth prospects of these regions are not very encouraging, no major upswing of migration from Slovenia can be expected in the case of free labour movement.

There may be a certain upswing immediately after the introduction of free labour movement, due to a certain backlog of migration, which may have built up as a result of legal barriers to crossborder migration. That increased inflow can be expected to be transitory, however, given the limited economic dynamism of the Austrian regions bordering Slovenia. The stock of Slovenians with official work permits in Austria amounted to only 6100 in 1998, half of which were employed in Styria. Slovenian migrants are above all young and highly skilled persons.

This might be confirmed also by the fact that the Slovenian economy has reached a high degree of macroeconomic stability and a much higher income and wage level than any other of the transition economies. Furthermore there is evidence of low mobility of Slovenes in the past (even in times of enhanced political risk).

### **Regional initiatives**

Cross-border co-operation between Austria and Slovenia began in 1995, when Austria became a member of the European Union. Projects in the frame of INTERREG and PHARE CBC are mainly concentrating on economic development, environment, infrastructure and human resources. Of specific interest for the future is the establishment of a cross-border technology cluster, providing first of all technological-organizational advice for enterprises in the Styrian border region. The support is of an infrastructural nature rather than of a financial one: enterprises of different production levels are being brought together in the framework of branch or regional fairs; for instance, Slovenian supplier companies in the car industry became aware of the respective potential in Styria in this way.

# **Intensification of East-West Relations in the Process of EU Enlargement: The Case of Austria/Slovenia**

## **Joint Report**

### **Introduction**

The integration of Slovenia into the EU can be expected to have a more pronounced impact on Austria and Italy, the neighbouring countries, than on other EU-member states. It can be expected that the process of intensified regional integration between Austria and Slovenia will entail costs and benefits on both sides, whereby the economic benefits should outweigh the costs. In order to facilitate and speed up the process of accession, it is useful to identify potential problems. The development of a strategy for co-ordinated socio-economic development should take sensitive policy issues into account in order to achieve a better bilateral understanding and in so doing to contribute to socio-economic cohesion in the EU. We shall in this study analyse the following aspects of policy concern: this study is a first and so far preliminary attempt to identify – on the basis of differentiated analyses and research – the potential adjustment needs as well as the benefits which both countries will derive from Slovenia's accession to the EU.

We shall start with a close look at the respective macroeconomic developments of Austria and Slovenia which should bring the relative economic attainment level and growth prospects to the fore. This should set the scene for a more detailed look into special perceived or real problems of increased regional integration.

## **1. The macroeconomic environment**

### **1.1 Short- and medium-term economic growth prospects of Austria**

In the 1990s, Europe's economy was shaken by a series of financial and currency crises. The recession of 1993, which was deepened by a restrictive monetary policy, was followed by the currency crisis of 1995-1996, and then by the financial crisis of 1998. The unfavourable international condition weakened Austria's export growth. The decrease was particularly pronounced for exports to countries outside the EU with the notable exception of CEECs. Domestic demand was, however, high such that economic growth did not suffer much.

Growth of the Austrian economy has accelerated since 1996. The turnaround in tourism during 1998 together with significant employment gains and the rise in real income, which gave a boost to domestic demand, have contributed to a very favourable economic growth performance of Austria vis-à-vis other EU-member countries.

The dynamic development was only temporarily restrained by the effects of the turbulence on the international financial markets. After a slight slowdown in 1999, economic production is picking up again. In 2000, the Austrian economy should benefit from an improvement in international framework conditions: business activity, while remaining firm in the USA, is set to gain momentum in Europe, due to a weak Euro as well as to domestic demand strength (notably in France, Spain and some of the smaller EU countries).

Austrian exports are benefiting not only from an accelerating expansion of foreign markets, but also from sizeable gains in competitiveness owing to substantial advances in productivity and pronounced wage moderation. Strong growth of merchandise exports (+7% in volume) is giving momentum also to manufacturing output (+4.3%) and investment in machinery and equipment (+7%). These estimates are confirmed by the very high level of business confidence, as captured in the WIFO business survey.

In 2000, private consumption will receive additional stimulus. Although gains in gross wages per capita will be squeezed by modest wage settlements, a generous tax reform and yet another raise in family benefits will make for a marked increase in net household income from employment and transfers (+2.75% adjusted for inflation). This will give strong upward drift to retail sales, and to consumer spending altogether. In 2001, consumer demand may move ahead at a slower pace, assuming a resumption of budgetary consolidation efforts. Construction activity is expected to remain lagging behind the overall trend in domestic demand, it being dragged down by a decline in residential building.

The Federal government has set medium-term targets for fiscal policy, in the Stability Programme, and an improvement in labour market performance with the help of the National Action Plan for Employment, which set targets for the period 1997 to 2002. Dependent employment is to be raised by 100,000, the unemployment rate to be lowered to 3.5%. The projected economic growth path should allow the employment target to be reached already by 2001 – if only, however, with regard to the number of employment contracts, and not of full-time equivalents, given the strong expansion of part-time work. The rate of unemployment (EU definition) will decline to 4.1% of the labour force by 2001, a further fall to 3.5% by 2002 can hardly be expected.

In the medium term – projection period of 1999–2004 – the Austrian economy is expected to grow by 2.5% p.a., faster than in the second half of the 1990s (+2.1%). The boom should reach its peak in 2001 and is then assumed to be followed by an EU-wide dent for the next two years. A new upswing thereafter is similarly explained from an overall European economic context. Throughout the period, the Austrian economy is expected to expand on average at a marginally lower rate than the EU in general (2.6%), as a result of

Table 1

## Austria: Selected economic indicators

	1995	1996	1997	1998	1999	2000 forecast	2001
Population, yearly average , in 1,000	8.046,5	8.059,4	8.072,2	8.078,5	8.086,8	8.091,0	8.090,8
Gross domestic product, ATS bn, value	2.375,2	2.453,2	2.522,2	2.610,9	2.685,9	2.782,5	2.889,7
Percentage change over previous year, volume		2,0	1,2	2,9	2,2	2,8	2,8
GDP/capita at current prices and exchange rates (USD)	29.279	28.753	25.602	26.108	25.948	27.512	29.037
GDP/capita at PPP (USD)	21.405	22.415	23.128	23.764			
Manufacturing (Value added)							
Percentage change over previous year, volume		2,0	3,8	3,4	2,3	4,3	4,3
Agriculture, forestry (Value added)							
Percentage change over previous year, volume		5,6	-1,7	2,3	0,0	0,0	0,0
Gross fixed investment, ATS bn, value	551,4	570,0	582,5	631,0	653,7	684,8	722,0
Percentage change over previous year, volume		2,1	0,8	6,8	3,3	3,9	4,2
Investment in Construction							
Percentage change over previous year, volume		1,6	-1,6	4,1	1,3	1,5	2,0
Dwellings completed, units	53.353	57.984	58.029				
Percentage change over previous year	9,2	8,7	0,1				
Average gross monthly wages, ATS	27.095	27.317	27.499	28.262			
Percentage change over previous year, volume		-1,5	-1,1	2,1			
Retail trade turnover, ATS bn	483,2	493,2	492,6	505,3			
Percentage change over previous year, volume	-0,2	2,1	0,0	2,5			
Consumer prices, % p.a.	2,2	1,9	1,3	0,9	0,6	1,1	1,0
Wholesale prices, % p.a.	0,4	0,0	0,4	-0,5	-0,9		
Central government budget, ATS bn							
Revenues	646,7	665,4	682,6	711,6	719,4		
Expenditures	764,6	754,8	749,8	777,6	787,6		
Deficit(-)/surplus(+)	-117,9	-89,4	-67,2	-66,0	-68,2	-70,0	-65,0
Deficit(-)/surplus(+), % GDP	-5,0	-3,6	-2,7	-2,5	-2,5	-2,5	-2,3
Money supply, ATS bn, end of period							
M1, Money	409,2	431,1	452,3	495,6			
M3, Broad money	1.910,5	1.944,8	1.967,2	2.092,0			
Discount rate, % p.a., end of period	3,2	2,5	2,5	2,5	2,5		
Current account, USD mn	-5.358	-4.795	-5.256	-4.592	-4.781	-5.176	-4.683
Reserves total, incl. gold, USD mn	23.623	25.482	21.592	24.117			
Gross external debt, USD mn	167.090	163.328	164.434	198.493			
Exports total, fob, USD mn	57.531,1	57.827,9	58.586,7	62.584,9	63.437,5	70.208,0	77.105,7
Percentage change over previous year	28,2	0,5	1,3	6,8	1,4	10,7	9,8
Imports total, cif, USD mn	66.261,4	67.327,8	64.751,2	68.028,8	70.218,8	77.728,0	84.967,5
Percentage change over previous year	20,4	1,6	-3,8	5,1	3,2	10,7	9,3
Exchange rates (period average)							
ATS/USD	10,08	10,59	12,20	12,38	12,92	12,50	12,30
ATS/ECU	13,03	13,26	13,78	13,88			
ATS/100 DEM	703,53	703,55	703,74	703,59	703,55		
PPP/USD (OECD)	13,79	13,58	13,51	13,60			

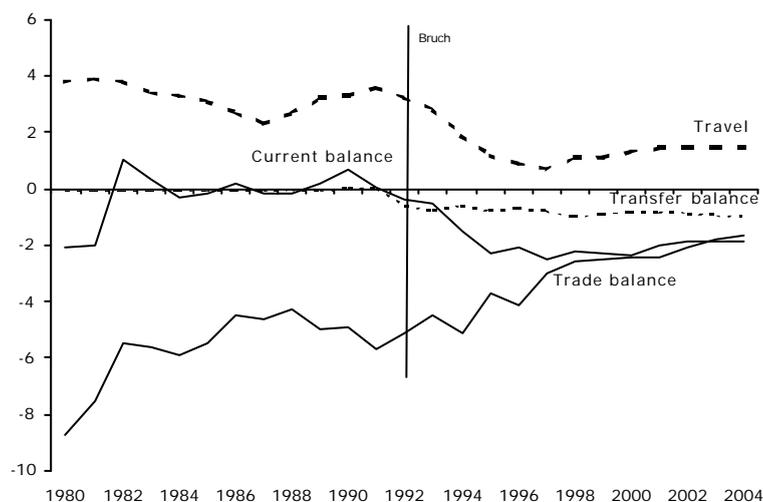
Source: OECD, Statistik Österreich, WIFO.

the slightly restrictive effects that the measures expected to be taken to consolidate the budget will have. Most EU member states have made better progress than Austria in their efforts to curtail the deficits of their public households. The tax reform of 2000 and the 'family package' will impact negatively on the budget of 2000. The objective of the stability programme, i.e., reducing the deficit in the general government financial balance to 1.4% of GDP by 2002, will be clearly missed according to the projection (1.8%) unless additional structural consolidation measures are taken.

The introduction of the Euro as the EU's currency in 2002 will be the main institutional change during the projection period. In the short run, the change could create problems for businesses which are not adequately prepared. In the medium term, the single currency will, however, have a positive effect on the economies of Austria and the EU. Austrian exporters should be able to continue to improve their price competitiveness over the next years if wage and price increases remain below the EU average. Such an advantage will no longer be offset by currency devaluations within the EMU. Improvements in the structural competitiveness will also depend on the progress made by Austrian technology policy. Additional positive momentum should be provided not just by the thriving economy in the EU but also by an upswing in Central and Eastern Europe. Under these assumptions, goods exports should rise by about 6.5% p.a. in real terms. Total exports will exceed 50% of GDP in 2004, the first time that this threshold will be surpassed (1999 +44%). A similar trend should, however, arise on the import front, although it should be somewhat less pronounced as a result of slower growth of domestic demand for imports from the EU. A small rise of unit labour costs and export prices should improve the competitive position not only on international markets but also on the domestic market (vis-à-vis competition from importers), which in turn should reduce the trade deficit.

Figure 1

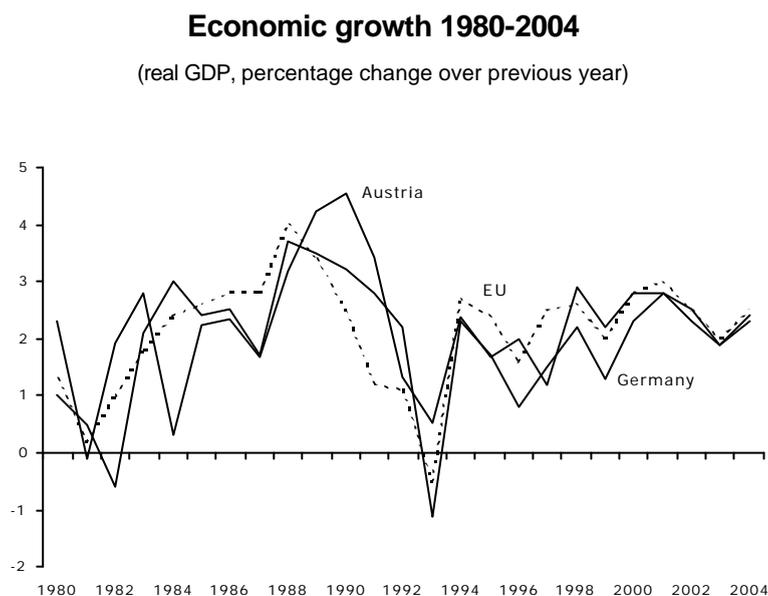
### External balance as a percentage of GDP, 1980-2002



A lower trade deficit and higher surpluses from tourist travel will combine to improve the current account, even though the balance on factor incomes and international transfer payments should continue to deteriorate.

Inflation should continue at a very low rate (1% p.a. on average). This is mainly the result of moderate wage growth in response to increasing competition from the EU, an expected stabilisation of the relatively high crude oil prices as of 2000, and further liberalisation and price cuts in the telecommunications and power utility industries.

Figure 2



The labour market situation will continue to improve. An accumulated total of about 90,000 jobs will be created between 2000-2004. Actual employment growth will depend to a large extent on the scope of redistribution of the work volume, i.e., in particular on the proportion of part-time workers. Employment in manufacturing should, in the medium term, be able to stabilise, construction will decline in the medium term (-0,5%) and services will continue to expand rapidly (+1,3%). The reason for an expected employment decline in the construction sector is, on the one hand, a limited demand for new housing - a result of population ageing – on the other hand the limited financial means of the public sector to invest in civil engineering and public infrastructure. The expansion of Services is going to gain momentum, particularly in market oriented services. But the public sector will expand as well, particularly in the area of health and social services, as the share of older, retired persons with considerable spending power is increasing.

Unemployment could not be significantly reduced in the past – if we ignore the massive step-up of active labour market policy measures in 1999, which allowed inroads into unemployment. The measures were, however, of a short run nature; thus sustainable

declines can not be expected, as active labour market policy budgets are not stocked up. The unemployment rate (according to Eurostat) will decrease to 3.9% of total labour force by 2002, thus failing to reach the NAP target of 3.5%, and increase thereafter due to a cyclical economic downturn. When we use the method of calculation customary in Austria, the rate will be reduced to 6.2% of the dependent labour force in 2004, always assuming that labour market policy measures will stabilise at their current level.

## **1.2 Short- and medium-term economic growth prospects of Slovenia**

### **1.2.1 Macroeconomic developments**

#### *Main macroeconomic reforms*

Unlike in most other former socialist countries, market oriented reforms in Slovenia (then as part of Yugoslavia) began already in the late eighties. The Laws on Social Capital and on Companies passed in 1989 allowed the workers' councils and managers to decide whether or not to privatize their enterprises. Finally, by the Law on Social Property (1990) the gradual transformation of socially-owned enterprises into mixed companies was made possible, whereas 'internal shares' enabling employee-buyouts through the purchase of shares at a discount were the main instrument of privatization (Mencinger, 1996). The Ljubljana Stock Exchange was re-established in late 1989, originally dating from 1924.

Important steps for the implementation of structural reforms and for the creation of a legal framework regulating the transition to a market economy were undertaken since the beginning of 1991: e.g. fiscal reforms were implemented, the bank and foreign exchange systems were established, laws on the privatization of socially-owned apartments and on the restitution of previously nationalized and confiscated property were passed. The Law on Ownership Transformation, regulating the privatization of socially owned enterprises was adopted by the Slovenian parliament after a long and heated debate only in November 1992 and twice amended in 1993. Thus, compared with other transition countries the implementation of the privatization process started with some delay, in late March 1993 and was complete in late 1998. Remaining companies had to be transferred to the Slovenian Development Corporation (succeeding the Slovenian Development Fund). Though the privatization law provided for a wide variety of privatization methods management-employee buyout has become the dominant form of privatization in Slovenia<sup>1</sup>.

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<sup>1</sup> The law provided for a combination of free distribution and commercial privatization methods: by obligatory transfer of shares to the Restitution Fund and the Pension Fund (10% of shares each), and the Development Fund (20%); by distribution of shares to employees; managers and workers buy-outs, sales of shares or of the company, by raising additional capital or by restitution to the original owner

## *Inflation*

When the new currency, the tolar, was launched in October 1991, the Slovenian economy faced high inflation - the monthly rate had peaked at 21% - and the foreign exchange reserves were almost zero. Basic pillars of the stabilization were restrictive monetary and fiscal policies and a floating exchange rate. Price control was limited to few prices like electricity, post, telecom, oil and oil products and some basic food stuffs.<sup>2</sup> During 1992 and 1993 macroeconomic stabilization was successful in reducing retail price inflation, in late 1995 the inflation rate reached a single digit level for the first time since the mid seventies. Further progress in disinflation was reached in the subsequent years. Inflation measured by the CPI reached 8% by December 1999 and 6.1% on an annual average. Controlled prices still account for 17% of the CPI basket. The gradual decline of inflation allowed the gradual reduction of interest rates, but compared with European standards they remained still high. The VAT introduced on 1 July 1999 (after several postponements) has two levels: a general 19% rate payable by all entrepreneurs with an annual revenue of at least SIT 5 mn, and a reduced rate of 8% which will be applied for items like food, medicine, and services including public transport and tourism. According to calculations by the EIPF<sup>3</sup> the downward trend of inflation will continue despite the tax reform. It may come below the 4% already in 2001, however its downward trend will become substantially slower. It will probably remain between 3-4% up to 2003.

## *Wages*

Real wages resumed growth at the beginning of 1992. From then on they were on the rise until 1996, exceeding increases in labour productivity. The halt of excessive real wage growth was mainly resulting from the Act on Minimum Wage and Wage Adjustment Mechanism passed by the Slovenian parliament in July 1997 in force until June 1999. The document regulates wage developments in the private sector, while public sector wages are set according to a separate annex. All wages are subject to an adjustment mechanism, where the base wages are adjusted for 85% of inflation on an annual rather than a quarterly basis. Following the implementation of the act, real wage growth slowed down substantially in 1997 and 1998. A similar agreement was reached amongst social partners on wage policy for the period 1999-2001 which will contribute to limiting the impact of higher prices on wages. Wages were adjusted for 85% of inflation in the month following the introduction of the VAT and again in January 2000 (again for 85% of inflation).

## *Employment*

Since the start of the transition the labour force contracted sharply in Slovenia. On the basis of national accounts and the health insurance registers, employment fell by about 14% over the 1989-95 period; the bulk of job losses occurred during the initial period

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<sup>2</sup> For further details, see Bole (199?) and Žižmond and Kracun (1995)

<sup>3</sup> Economic Institute of the Faculty of Law.

between 1989 and 1992. Labour force survey data report the lowest employment level in 1993 and show an employment increase afterwards, although with some fluctuations. In recent years most jobs were created in the small-scale private sector. In Slovenia employment patterns changed less rapidly than in other leading transition countries. According to administrative data, the share of industry in total employment fell from 44.7% in 1993 to 41.6% in 1998, while that of services increased from 47.7% to 51.7%.

The employment cutback resulted in a sharp increase in open unemployment, reaching a peak level in 1993, when 137 thousand persons were registered as unemployed. In the following years the number of jobless decreased slightly. In December 1999 registered unemployment amounted to 114 thousand persons, corresponding to a 13% unemployment rate. The structural nature of unemployment is becoming more and more evident: more than half of all job-seekers are low-skilled, close to 50% are over 40 years old and more than one fourth is below 26 years of age. The unemployment rate according to the labour force survey has been substantially lower than measured by registration data, 7.7% during the fourth quarter of 1999. By intensifying the active employment policy (more jobs in the public works scheme, and subsidized employment), relatively subdued wage growth and the increased labour market flexibility expected with the passing of the Labour Relations Act, total employment is estimated to accelerate its growth (by between about 0.7% and 0.9% in 2000 and 2001 respectively). With expected economic growth acceleration in 2002 and 2003 employment growth is also expected to increase further. However, the decline in unemployment will be hindered by its structural characteristics.

### *Budget*

The balanced general government budget (in some years also general government surpluses were recorded) in 1992-1996 had a positive impact on economic stabilization, as it did not create additional pressures on interest or exchange rates through domestic or foreign borrowing. The general government account moved into deficit in 1997, reaching the hitherto highest deficit, 1.2% of GDP; in 1998, it fell to 0.8%. The proportion of public debt (domestic and foreign) to GDP is about 37%. The introduction of VAT in July 1999 brought uncertainties in estimations of revenues coming from the new tax. However, it is expected that the general government deficit will not exceed 1% of GDP. Despite that the possibilities of reducing general government expenditures are limited due to the existing social security system and the organization of the public sector.

On 1 September 1995 Slovenia declared full convertibility of the tolar, accepting the obligations of Article VIII of the IMF agreement. Bank rehabilitation starting in 1993 involving Ljubljanska Banka (LB), Kreditna Banka Maribor (KMB) and Komercialna Banka Nova Gorica, later acquired by KMB - was completed in June 1997. The privatization of the two remaining banks is still ahead; foreign participation will be allowed but domestic institutions are to remain majority owners. Being under preparation for four years a new

Banking Law was enacted at the beginning of 1999. Among others the law regulates more precisely than the previous legislation the scope of banking activities, supervisory agreements and basic prudential conditions to be followed by banks. It also allows foreign banks to establish branches without direct capital requirements, instead of only subsidiaries as before. The law is harmonized with EU legislation. In general, the opening up of the banking sector to foreigners will increase competition, but also exert pressure for rationalization among the (small) domestic banks.

### **1.2.2 Medium-term prospects**

Substantial declines of Slovenia's GDP started in 1990 (then as a part of former Yugoslavia), after three years of moderate contraction. The one and a half years following independence, Slovenia faced recession caused by market losses in the Yugoslav successor states and in the former socialist countries, and due to the introduction of market oriented reforms. In the 1991-1992 period GDP fell cumulatively by 14.5%. Economic recovery started in mid-1993 and gained further momentum in 1994 with GDP growing by 5.3 %; subsequently it slowed till 1996. A new pick-up started in the second half of 1997 with the GDP growth rate for the full year reaching 3.8%. 1998 and 1999 witnessed GDP growth rates of 4.6% and 4.9% respectively. Increases in domestic and foreign demand components were the principal driving forces of economic recovery. Their contribution to growth shifted in response to domestic and external conditions. The private sector's contribution to both GDP and employment is given at 55 % for 1996; some unofficial estimates put the present share at 60 %. As early as in 1996, Slovenia recorded the level of gross domestic product seen before independence, that is the 1990 level and, in 1998, it achieved the level of 1987, when the economic crisis started in former Yugoslavia and GDP started to decline. Measured in PPS (purchasing power standards), Slovenia's per capita GDP is the highest among the EU candidate countries, corresponding to 73% of the EU average in 1999. Thus, Slovenia has reached the level of Portugal and already exceeded the level of Greece.

Industrial production had started to revive only in 1994, after having contracted since the late 1980s. The turnaround was made possible by strong foreign demand resulting from the economic recovery in the West European markets, and by an increase in domestic investment activities. After 6.4 % growth in 1994 a slowdown of production growth started in the second half of 1995 and continued until the last quarter of 1997. After a temporary recovery in 1998, the downward trend starting in the final months of last year continued during the first months of 1999. There are at least two reasons for the decline in industrial output: First, being a small open economy with high regional concentration in trade (EU), Slovenia is extremely vulnerable to economic developments in EU markets.<sup>4)</sup> Second, the

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<sup>4</sup> Slovenia's trade (export and import of goods and services)/GDP ratio was 115% and its export (of goods and services)/GDP ratio 57% in 1998.

slowdown/stagnation of orders is also attributable to structural weaknesses such as slow restructuring or lack of functioning corporate governance.

Looking at the performance of individual manufacturing industries since 1993, fastest growing branches are manufacturing of transport means, construction materials, electrical and optical equipment, chemical and chemical products, food, beverages and tobacco. Stagnating industries are textile and leather products, oil products, paper and cardboard, and printing and publishing.

### *Foreign trade*

Slovenia as a small country is highly dependent on foreign trade, with exports of goods and services corresponding to 57% of the GDP. Two thirds of trade is conducted with the European Union, particularly with Germany, Italy, France and Austria. Both exports and imports are dominated by machinery, transport equipment and other manufactured products. On the territory of former Yugoslavia, Croatia has remained Slovenia's main trading partner, though the volume of bilateral trade has been declining steadily. During the 1993-98 period, both total exports and imports developed dynamically, increasing cumulatively by 48.8% and 55.3% respectively in current USD terms. After a remarkable jump in 1995, the average annual trade deficit has been about USD 1 billion. Thanks to increased earnings from services (especially from tourism and transport), the deficits in trade could be largely offset. The substantial current account surplus in the 1992-1994 period disappeared in 1995, but remained more or less balanced till 1998. In 1999 a record deficit in foreign trade coupled with a deterioration in the services trade led to the highest current account since gaining independence (about 3% of GDP). In the coming years the current account will remain in deficit, however, it is not expected to exceed 1% of the gross domestic product.

### *Foreign direct investment*

The inflow of FDI in Slovenia is rather modest compared to other transition countries. By the end of 1998 the stock of foreign capital invested stood at USD 2.907 mn (foreign equity plus net liabilities of foreign investment enterprises, FIEs). Inflows were significant on a per capita basis; here Slovenia ranked second after Hungary in the CEEC-5 region.<sup>5)</sup> The results in absolute terms reflect Slovenia's resistance concerning the participation of foreigners in the privatization process.

In 1998, a breakdown of the major foreign investors by countries shows that 37.5% of the FDI equity stock came from Austria - up from 19% in 1993 -, followed by France (12.8%), Germany (13.3%) and Italy (6.6%).<sup>6)</sup> Compared to other countries in transition, especially

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<sup>5)</sup> CEEC-5 comprises the Czech Republic, Hungary, Poland, Slovakia and Slovenia.

<sup>6)</sup> The relatively high share of France reflects almost exclusively Renault's engagement in the car manufacturing company Revoz.

Poland and Hungary, where US-based multinationals rank first and second respectively among the most important investors, they play only a minor role in Slovenia. The most important recipient of FDI in Slovenia is manufacturing industry (chemicals and chemical products, motor vehicles, paper and paper products; motor vehicles and machinery and equipment) followed by financial intermediation, other business activities, electricity supply and wholesale trade (Bank of Slovenia, 2000).

FDI in Slovenia is characterized by a variety of small investments in the trading and other services sectors. In value terms however FDI is concentrated in some big projects involving multinationals. The largest investments were done by Renault, Goodyear, Reemtsma, Seita, Pfeleiderer, Kirkwood Industries, Messer Griesheim; Aquafil, Siemens, Bosch, Bayer, Danfoss and Citroen.

The outflow of direct investment from Slovenia is insignificant. In 1998 the stock of total outward FDI was USD 563.4 mn. While playing an outstanding role in inward FDI in Slovenia, Austria's role in Slovenian outward direct investment is negligible. Here the successor states of Yugoslavia are the target countries, first of all Croatia - representing 53.1% of Slovenia's total stock of outward investment in 1998. A modest increase was also reported for other Central European countries and Russia.

#### *Economic outlook for Slovenia up to 2003*

The external conditions for growth will, according to available economic growth forecasts (prepared by IMF or OECD experts, or experts engaged in the LINK project, or prepared by various economic institutes), improve in 2000 and will remain fairly favourable up to 2003. Due to the smallness, openness and strong links of Slovenia's economy to EU countries, developments in those economies will be crucial for Slovenian growth performance. Nevertheless, gross capital formation will have to play a central role among the components of domestic demand (as in previous years). Therefore exports and investment will be the main driving forces of growth accompanied with growth of households' and government consumption. With a relatively modest foreign direct investment inflow in previous years (except perhaps in 1997), Slovenia has still not utilized this potential push for economic development. Official Slovenian forecasts put the economic growth in 2000 and 2001 at 3.75 to 4%.<sup>7</sup> The target development scenario until 2003 anticipates successful accession to the EU and the strengthening of an effective institutional framework. Acceleration of economic growth to between 4.5% and 5.5% annually in the period after 2001 is based on the assumption that the rise in exports will be more pronounced (including exports of services, which have declined in recent years), investment efficiency will be increased, foreign direct investment inflows will rise and domestic demand will go up moderately. In case of a less favourable international

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<sup>7</sup> Institute of Macroeconomic Analysis and Development IMAD.

Table 2

## Slovenia: Selected Economic Indicators

	1993	1994	1995	1996	1997	1998	1999 <sup>1)</sup>	2000 forecast	2001 forecast
Population, th pers., mid-year	1990.6	1988.9	1987.5	1991.2	1986.8	1982.6	1985.6	.	.
Gross domestic product, SIT bn, nom.	1435.1	1853.0	2221.5	2555.4	2907.3	3243.5	3637.0	3910	4250
annual change in % (real)	2.8	5.3	4.1	3.5	4.6	3.9	4.9	3.7	4
GDP/capita (USD at exchange rate)	6366	7233	9431	9481	9163	9847	10078	.	.
GDP/capita (USD at PPP - WIIW)	10720	11560	12440	13220	14150	14890	15650	.	.
Gross industrial production									
annual change in % (real)	-2.8	6.4	2.0	1.0	1.0	3.7	-0.5	2	2
Gross agricultural production									
annual change in % (real)	-0.7	20.2	-0.1	0.7	-1.2	2.5	.	.	.
Goods transport, mn t-kms	23855	23245	22595	22371	22563	22017	23500	.	.
annual change in %	-10.4	-2.6	-2.8	-1.0	0.9	-2.4	6.7	.	.
Gross fixed capital form., SIT bn, nom. <sup>2)</sup>	270.2	372.7	475.0	576.7	684.1	785.2	.	.	.
annual change in % (real) <sup>2)</sup>	10.7	14.1	16.8	9.2	11.3	12.9	.	8	.
Construction output, in effect. working time									
annual change in % (real)	-18.2	-0.1	0.9	-2.5	-5.2	1.7	10.7	.	.
Dwellings completed, units	7925	5522	5715	6228	6085	.	.	.	.
annual change in %	22.1	-30.3	3.5	9.0	-2.3	.	.	.	.
Employment total, th pers., average	755.9	746.2	745.2	741.7	743.4	745.2	758.5	.	.
annual change in %	-3.6	-1.3	-0.1	-0.5	0.2	0.2	1.8	.	.
Employees in industry, th pers., average <sup>3)</sup>	277.9	265.3	252.4	239.2	248.5	246.2	.	.	.
annual change in %	-8.5	-4.5	-4.9	-5.2	-2.1	-0.9	.	.	.
Unemployed reg., th, end of period	137.1	123.5	126.8	124.5	128.6	126.6	114.3	.	.
Unemployment rate in %, end of period	15.4	14.2	14.5	14.4	14.8	14.6	13.0	12	12
Average gross monthly wages, SIT	75432	94618	111996	129125	144251	158069	173194	.	.
annual change in % (real, net)	14.4	6.0	4.7	4.4	2.9	1.5	2.8	.	.
Retail trade turnover, SIT bn	483.6	608.7	705.8	871.3	1336.8	1610.2	.	.	.
annual change in % (real)	3.3	5.2	3.1	2.9	1.0	1.9	2.9	.	.
Consumer prices, % p.a.	32.9	21.0	13.5	9.9	8.4	7.9	6.1	5.5	4.5
Producer prices in industry, % p.a.	21.6	17.7	12.8	6.8	6.1	6.0	2.1	.	.
General government budget, SIT bn									
Revenues	640.9	803.6	958.2	1091.8	1222.6	1397.9	1587.4	.	.
Expenditures	628.4	803.4	957.3	1083.6	1256.7	1423.5	1610.4	.	.
Deficit (-) / surplus (+)	12.5	0.2	0.9	8.2	-34.1	-25.6	-23.0	.	.
Deficit (-) / surplus (+), % GDP	0.9	0.0	0.0	0.3	-1.2	-0.8	-0.6	.	.
Money supply, SIT bn, end of period									
M1, Money	115.7	170.2	203.9	235.1	270.5	332.7	399.7	.	.
Broad money	512.9	735.0	941.9	1135.3	1411.3	1690.3	1912.3	.	.
Discount rate % p.a., end of period	18.0	16.0	10.0	10.0	10.0	10.0	8.0	.	.
Current account, USD mn	191.9	600.1	-22.8	39.0	36.6	-3.8	-581.4	-250	-250
Gross reserves of NB excl. gold, <sup>4)</sup> USD mn	787.7	1499.0	1820.8	2297.4	3314.7	3638.5	3168.0	.	.
Gross external debt, USD mn	1873	2258	2970	4010	4176	4959	5491	.	.
Exports total, fob, USD mn	6082.9	6827.9	8315.8	8309.8	8368.9	9050.6	8545.8	8900	9300
annual change in %	-9.0	12.2	21.8	-0.1	0.7	8.1	-5.6	4	5
Imports total, cif, USD mn	6501.0	7303.9	9491.7	9421.4	9366.5	10110.9	9954.4	10200	10400
annual change in %	5.9	12.4	30.0	-0.7	-0.6	7.9	-1.5	3	2
Average exchange rate SIT/USD	113.24	128.81	118.52	135.37	159.69	166.13	181.77	188	.
Average exchange rate SIT/EUR (ECU)	132.28	152.36	153.12	169.51	180.40	186.27	193.63	.	.
Average exchange rate SIT/DEM	68.43	79.37	82.66	89.98	92.12	94.41	99.00	.	.
Purchasing power parity SIT/USD, WIIW	67.27	80.57	89.86	97.08	103.40	109.88	114.86	.	.

1) Preliminary. - 2) Based on GDP concept. - 3) Up to 1996 excluding persons employed by self-employed in enterprises with 3 and more employees. - 4) Up to 1995 excluding portion of debt of the former Yugoslav Federation.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

environment and a less stable domestic environment for foreign or domestic investment, the GDP growth will remain at 3 to 4% per year.

### **1.3 The current state of Austrian-Slovenian economic relations**

Since Slovenia's independence, the Austrian-Slovenian bilateral trade in commodities has developed favourably, but less dynamically than e.g. with Hungary. However, relations are expected to intensify as in 1998 Austrian companies were awarded contracts in many large projects (concession to build five hydropower plants along the lower Save river, delivery of 30 local trains and 50 wagons, delivery of electrical equipment for desulphurizing of stack gas in the thermal power plant Šoštanj) (BWK, 1999).

#### *Current account*

Austria's current account vis-à-vis Slovenia has been in surplus over the whole 1993-1998 period, reaching ATS 6.5 bn in 1998 (latest available data), up from ATS 3.6 bn in 1993<sup>8</sup>. Over the whole period total revenues from current transactions with Slovenia were double as high as expenditures. In 1998 trade in goods made up about 69% of revenues and 59% of expenditures in current transactions with Slovenia. Trade in services accounted for 24% in revenues and 37% in expenditures, while factor incomes contributed 6.5% to revenues and 3.3% to expenditures. Data for 1993 (the first year with available data) show almost the same proportions for the main components i.e. trade and services (see Table 3 and Annex Table A/1).

The current account with the CEEC-5 (Czech Republic, Hungary, Poland, Slovakia and Slovenia) makes a major contribution to the otherwise gloomy current account situation in Austria (Walterskirchen, 1998). In 1996 surpluses in the trade of goods and services made up about 1.2% of GDP; without trade with these applicant countries, Austria's current account deficit would nearly have been double.

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<sup>8</sup> The methodology of Austrian current account data has changed in 1996; thus a comparison with earlier years has to be treated with caution.

Table 3

**Austria's current account with Slovenia, 1996-1998**  
in ATS million

	1996			1997			1998		
	Credit	Debit	Saldo	Credit	Debit	Saldo	Credit	Debit	Saldo
Zpos.									
<b>1000 Goods</b>	9872	5611	4261	12912	6394	6518	12978	7321	5746
<b>2000 Services, total</b>	3865	3187	678	4581	4654	-73	4499	4542	-43
2050 Transport	464	384	80	564	430	134	726	348	378
2360 Travel	1194	1637	-443	1190	2657	-1467	1179	2598	-1419
2450 Communications	2	25	-23	62	69	-7	33	38	-5
2490 Construction	26	30	-4	8	36	-28	45	22	23
2530 Insurance	69	42	27	77	53	24	99	51	47
2600 Financial	19	18	1	88	12	76	26	7	19
2620 Computer and information	0	0	0	2	1	1	6	2	4
2660 Royalties and licence fees	18	4	14	15	6	9	3	2	0
2680 Other business services	1033	317	716	1562	344	1218	1195	279	917
2700 Transit trade	779	0	779	1287	0	1287	954	0	954
2720 Operational leasing	117	15	102	120	9	111	73	27	46
2710+2730 Other services	137	302	-165	155	335	-180	168	252	-84
2870 Personal, cultural and recreational	0	0	0	10	0	10	7	2	5
2910 Government, n.i.e.	18	10	8	29	19	10	9	10	-1
9820 Services n.a.	1022	720	302	974	1027	-53	1172	1182	-11
<b>3000 Income</b>	623	252	371	643	398	245	1227	406	821
3100 Compensation of employees	4	22	-18	24	258	-234	7	251	-243
3200 Investment income	619	230	389	619	140	479	1220	156	1065
3300 direct investment income	240	0	240	254	0	254	552	24	527
3390 Portfolio investment income	33	52	-19	40	5	35	101	5	96
3700 Other investment income	346	178	168	325	135	190	567	126	441
<b>3790 Current transfers</b>	62	75	-13	65	44	21	106	141	-35
<b>9930 Current account</b>	14422	9125	5297	18201	11490	6711	18810	12320	6490

### *Trade in services*

In contrast to the huge surplus in commodity trade, the balance of services closed with a relatively small surplus in 1996, which turned negative in the two subsequent years (1997 (ATS -73 mn, 1998 ATS -43 mn). Trade in services is concentrated in three main items: travel, other business related services (of which transit trade is the dominating segment) and other non-allocated services. In tourism Slovenia yielded surpluses over the whole 1993-1998 period, which is mainly due to Austrian cross-border purchases in Slovenia. In 1995 and 1996 Austrian consumer purchases in Slovenia amounted to about ATS 0.5bn each or 1.6% of total Austrian cross-border purchases in the respective years (Kratena and Wüger, 1997)<sup>9</sup>. Within the services trade, the item transit trade has been reporting significant surpluses over the whole period, a phenomenon which is common in Austrian services trade with all central and east European countries.

Slovenian *tourists* play only a minor role in Austrian tourism: data for the first half of 1999 put the share of Slovenian tourists in total overnight stays at less than 0.1%, the average duration of a stay at 2.1 days. Main destinations of Slovenian tourists in Austria are Vienna (29.7% of total overnight stays), Carinthia (17.2%), Tyrol and Salzburg (about 12% each) and Styria (10%).

In comparison with Austria the economic level of Slovenian tourism is much lower: while in Austria the foreign exchange income per capita amounted to USD 1.510 in 1998, the same indicator for Slovenia was only USD 558. Nevertheless, Slovenia has had relatively favourable economic results in tourism due to its natural resources, high human capital and good relations with neighbouring countries forming the main origin of tourist flows.

Nearly 70% of all foreign tourists in Slovenia come from EU member states. One quarter of income from tourism stems from East European countries. Austrian tourists have – due to geographical vicinity, historical linkages, better knowledge of the country, cultural similarities, infrastructure and traffic connections – in the last decades been on the third place measured by overnight stays in Slovenia. According to official evidence Germany was in 1997 on the first place (747.737 overnights stays), followed by Italy (550.302), Austria (457.656), Croatia and Great Britain.

Nearly half of Austrian tourists visit the coastal area, 25% spas and 20% the mountain regions. As regards the 'Länder' origin, 23.5% of all Austrian tourists in 1997 came from Styria, 23.2% from Vienna and 14.4% from Carinthia.

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<sup>9</sup> Among the CEECs, Austrian consumer expenditures were highest in Hungary, about ATS 3bn p.a. in the 1994-96 period, which is equivalent to about 10-11% of total cross border purchases in the resp. years.

Table 4

### Foreign tourists in Slovenia

	1990	1995	1996	1997	I 97/96	I 97/90
Overnight stays, total	334.000	440.700	438.200	483.500	110	145
Number of tourists	86.600	117.000	122.600	137.100	112	158
Average duration of stays	3.85	3.77	3.57	3.53	99	92
Austrian share in foreign overnight stays	6.2	18.1	17.2	15.7	91	253

After Slovenia's EU accession, accomplishment of institutional reforms and restructuring of the business enterprise sector (which implies the concentration of fragmented tourist offer) there are chances for intensification of tourist flows between Slovenia and Austria in both directions. The shift of Schengen rules from the North-Western part of the Slovenian border to the South-East will bring new behaviour patterns in tourism and migration.

#### *Factor incomes*

The income balance, the third important component of the current account, has ended up positive in 1996 (ATS 371mn) and has more than doubled in 1998, to ATS 821mn. A breakdown of individual items shows that Austria had a surplus in the positions 'direct investments' and 'others', while reporting a deficit in the item 'income from labour'.

#### *Foreign direct investment*

The stock of Austrian FDI in Eastern Europe grew almost tenfold since the beginning of the nineties, from ATS 5.3 bn (USD 0.5 bn) in 1990 to ATS 65.5 bn (USD 5.6 bn) in 1998. Of this, 32.6 % went to Hungary, 26% to the Czech Republic, 10% to Poland, 10.2% to Slovakia and 8.1% to Slovenia. In 1998 75% of Austrian FDI in Eastern Europe was concentrated in the ten applicant countries, and 70% in the five first round candidates (Hunya and Stankovsky, 2000).

Austria ranks first among foreign investors in Slovenia. The biggest projects were undertaken by OMV, Spar, Brigl & Bergmeister; Mayr-Melnhof, Henkel Austria, Duropack, Bramac and Porsche. Austrian investors are also dominant in the field of portfolio investments in equity securities (the whole magnitude of which is very small), representing 31% of the total value, followed by investors from the United Kingdom. In 1997 459 Austrian enterprises were registered in Slovenia.

Table 5

**Austrian FDI in Eastern Europe – stock of total outflows**

USD mn, end of period

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 June
Czech Republic	10	41	249	458	791	993	1058	1070	1448	1487
Slovak Republic	2	32	70	87	158	208	290	397	568	514
Hungary	352	807	1084	1354	1615	1589	1552	1484	1817	1722
Poland	15	40	44	78	105	174	241	339	551	611
<b>Slovenia</b>	<b>69</b>	<b>77</b>	<b>92</b>	<b>127</b>	<b>151</b>	<b>255</b>	<b>333</b>	<b>348</b>	<b>451</b>	<b>473</b>

**Austrian FDI in Eastern Europe – stock of total outflows**

ATS mn, end of period

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 June
Czech Republic	114	479	2736	5327	9035	10011	11201	13058	17925	18796
Slovak Republic	23	374	769	1012	1805	2097	3070	4845	7031	6497
Hungary	4002	9423	11912	15750	18447	16020	16431	18111	22493	21767
Poland	171	467	484	907	1199	1754	2551	4137	6821	7723
<b>Slovenia</b>	<b>785</b>	<b>899</b>	<b>1011</b>	<b>1477</b>	<b>1725</b>	<b>2571</b>	<b>3525</b>	<b>4247</b>	<b>5583</b>	<b>5979</b>

Note: Up to 1997 company survey; 1998 and June 1999 OeNB estimates (calculated partly with the balance of payments outflows).

Source: Austrian National Bank.

*Commodity trade*

In 1998 Austria's exports to Slovenia were 2.3 times, imports from Slovenia 2.5 times higher than in 1992. The share of exports to Slovenia in Austria's total exports increased slightly from 1.2% to 1.7%, the share of imports from Slovenia in total Austrian imports from 0.5% to 0.7%. Looking at exports per head, Slovenia ranked first in 1997, followed by Switzerland, Hungary and Germany.

According to Slovenian statistics, in 1999 Austria ranked fourth, both, among suppliers to Slovenia and main export destinations of Slovenia.<sup>10</sup> Exports to and imports from Austria accounted for 6.9% of total exports and 7.9% of total Slovenian imports, respectively.

<sup>10</sup> Slovenia's most important trading partners in 1999 were Germany, Italy, France, Austria and Croatia accounting for about two thirds of total exports and 60% of total imports.

Table 6

**Austrian foreign trade with Slovenia****Exports, imports, trade balance**

Year	Exports				Imports				Trade balance		
	ATS mn	change in %	index 1992=100	share in total	ATS mn	change in %	index 1992=100	share in total	ATS mn	change in ATS mn	share in total
1992	5641.6	.	100.0	1.2	2995.9	.	100.0	0.5	2645.6	.	-2.5
1993	6808.9	20.7	120.7	1.5	3375.0	12.7	112.7	0.6	3434.0	788.3	-3.5
1994	7999.7	17.5	141.8	1.6	4058.8	20.3	135.5	0.6	3940.9	506.9	-3.4
1995	9815.3	22.7	174.0	1.7	5261.6	29.6	175.6	0.8	4553.7	612.8	-5.2
1996	9864.3	0.5	174.9	1.6	5943.2	13.0	198.4	0.8	3921.1	-632.7	-3.9
1997	12904.8	30.8	228.7	1.8	6756.4	13.7	225.5	0.9	6148.4	2227.4	-8.2
1998	12962.0	0.4	229.8	1.7	7490.3	10.9	250.0	0.9	5471.7	-676.7	-7.5

Source: WIFO Database.

These data indicate an even more pronounced asymmetry than e.g. with Hungary. The proportion of Slovenia's trade with Austria in its total trade volume is about six times higher than vice versa.

In 1998 Austria's exports to the CEECs (15)<sup>11</sup> made up 15.2% of its total exports, of which 11.1% went to Slovenia. Exports to Slovenia were higher than deliveries e.g. to Poland or Russia in 1998. Within the CEECs Slovenia ranked third among Austria's main export partners after Hungary and the Czech Republic. In total exports, Slovenia ranked 12th among Austria's main export target countries. On the import side, out of Austria's total imports 11.5% originated from the CEECs. Austrian imports from Slovenia accounted for 9.2% of total imports from the CEECs. By 1998 Slovenia ranked fourth among Austria's major import partners from the CEECs (15) and 17th among Austrian total import partners.

Over the whole period Austria reported a trade surplus with Slovenia, which was generated in all commodity groups except miscellaneous manufactured articles. Within that commodity group Austria has traditionally deficits in trade with furniture, but also with clothing and shoes. The surplus grew steadily over the 1992-1995 period, fell in 1996 and reached a peak level in 1997 (ATS 6.2 bn). In 1998 it fell to ATS 5.5bn, the value of Austrian exports to Slovenia exceeded the value of imports from Slovenia by 73% (see Table 6).

Since 1992 some changes in the commodity structure of bilateral trade took place. The most remarkable shift was recorded in the commodity group machinery and transport equipment, where the share of Austrian imports from Slovenia increased to 33.4% in 1998 from 21.7% in 1992. The share of imports almost doubled, while the proportion of other commodity groups either remained stationary or diminished. On the export side the share of manufactured goods increased by about 6 percentage points (to about 31%) over the 1992-1998 period. Machinery and transport equipment exports comprised around one quarter (with a slight upward tendency) and exports of chemical products about 15% over the whole period. Losses of export shares were most pronounced in the commodity groups raw materials and mineral fuels, by 4-5 percentage points. (See Annex Tables A/2, A/3, A/4.)

#### **1.4 Income, wage and price gaps between Slovenia and Austria**

In 1996 Slovenia recorded the level of gross domestic product seen before independence (the 1990 level), in 1998 it reached the level of 1987, when the decline in GDP started.

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<sup>11</sup> CEEC (15) cover Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia, Slovenia, BR Yugoslavia. The share of exports to the CIS in total Austrian exports amounted to 1.4%, the share of imports 1.8% in 1998.

GDP per capita measured by purchasing power standards shows that Slovenia - the most advanced transition country - has reached or even surpassed the level of Greece and Portugal respectively in 1999, when it stood at ECU 14,400 or 73% of the EU-average (in 1990 Slovenia accounted for 69% of the EU average). A comparison with Austria indicates that the Slovenian GDP per capita amounted to 65% of the Austrian level in 1999, from 64% in 1990. (WIIW, 2000).

The price level of the total basket of goods and services which comprises the GDP is in Slovenia lower than in Austria. Thus, the tolar has more purchasing power at home than abroad. In 1996 the general price level in Slovenia was 56% of the Austrian. In 1996, the lowest comparative price level were recorded in communications (25.8%), education (39.2%), medical care (40.9%), operation of equipment (43%) and gross rents (44.4%) (see Žižmond, 1996). Following the high real wage growth since 1992 the relative purchasing power of Slovenian net wages reached 39.1% in 1995, and 41.9% in 1998.

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## 1.5 Studies on the aggregate impact of EU enlargement

### 1.5.1 On Austria

Estimates of the aggregate impact of EU enlargement on the Austrian economy have been made by means of a number of model simulations. The channels through which EU enlargement is assumed to affect the Austrian economy are:

- direct trade effects: higher growth rates in CEECs (derived from their integration effects) result in increased export growth;
- indirect trade effects: the other (mostly EU) trading partners are also experiencing a slight growth effect from EU enlargement and hence Austria's exports to these countries are also positively affected;
- terms of trade effect: as CEECs are low-cost producers, the fall in overall import prices has both a negative substitutive effect on Austrian producers, but also a positive effect on the overall price level in Austria and hence on real incomes;
- specific effect on increased tourism flows to Austria as real incomes rise in CEECs due to their positive enlargement effects;

- the impact of increased FDI flows to CEECs: FDI flows stimulate growth (including productivity growth and positive structural change in CEECs) and have positive trade effects on Austria, but there might also be a limited substitutive effect on investment in Austria (the substitution vs. complementarity of FDI on domestic investment and export activity is the subject of detailed research);
- budgetary impacts of EU enlargement;
- various structural effects on industry and trade specialization, on wage and employment structures, as well as regional effects will be taken up in later paragraphs.

All in all, Austrian model simulations estimated a positive long-term impact of EU enlargement (in two stages) upon the Austrian economy in the region of a long-run level effect on GDP in the range of 1.3 to 1.7%, a fall in the overall price level of -0.9% and a positive effect upon dependent employment of about 27,000 employees. Migration aspects have not been included in these model simulations (see literature below). The incidence of the net gains from EU enlargement over time and their structural and regional impact depend, of course, upon the structure of transitory arrangements and upon the extent and effectiveness of adjustment policies.

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### 1.5.2 On Slovenia

With Slovenia approaching the European Union, an assessment of the long- and short-term costs and benefits is called for. Assessments of this kind constitute a basis for rational economic policy decisions, as well as for decisions in individual enterprises; such decisions are being taken by both partners in the integration process. A number of questions still remain open even after the political decision has been taken; all of them have a bearing on the negotiation process and are crucial to making the economic agents, the state and citizens aware of the consequences they will face both during the transition period and upon entry into the EU. Approaching the EU is basically a structural problem; the economy is faced with the consequences of structural change in individual sectors (agriculture,

industry, transport, financial services, energy sector, etc.) as well as the impact of those changes on other sectors, not to mention the impact on macroeconomic aggregates. Partial sector analyses cannot provide an evaluation of the more complex mutual effects at the aggregate level nor at the level of individual sectors of the Slovenian economy. Appropriate quantitative tools have yet to be devised that permit an analysis of the various areas of economic policy.

Besides the problems mentioned above, predicting the effects of Slovenia's entry into the EU is a difficult task. The present situation in both Slovenia and the EU is most probably distinctly different from the situation five to six years hence, when the actual entry may be expected to take place. Consequently, an analysis and constant monitoring of the present situation in selected sectors in Slovenia and the EU take on even greater importance if Slovenia is to be prepared for and adjusted to EU requirements prior to entry proper. An active policy of adjustment throughout the transition period would reduce the negative impact (shock) of entry.

Another problem arises when dealing with the different phases of accession to the EU. The gradual full-scale implementation of the Europe Agreement is certainly part of a broader economic process in preparation for future accession. The effects of full accession are also closely dependent on the level of economic, social and political reform achieved prior to actual entry into the EU. It is thus essential to distinguish between different (and significant) phases of the accession process and assess the full costs and benefits by adding estimates for individual phases. Consequently, in estimating the effects of the adoption of the EU Common Customs Tariff, it is not enough to measure the consequences of changes in the tariffs adopted previously; in the pre-accession period, the country has to abolish completely all tariffs and other import duties (and non-tariff barriers) on imports from the EU. These changes are certainly among the steps to be taken in the course of approaching the EU; they should therefore be taken into account. The accession requirements spelt out by the European Council in Copenhagen (June 1993), Madrid (December 1996) and by the European Commission which issued a white paper (1995) should be met in the pre-accession period; they will incur some costs as well as yield some benefits for the accessing countries. Research studies should aim at estimating total costs and benefits, in addition to estimating partial costs and benefits during specific phases of the accession process in relation to the level of preparation of a particular country on entry into the EU.

EU accession has already been the subject of extensive preparatory work, culminating in the 'EU Accession Strategy of the Republic of Slovenia' (EU Accession Strategy, 1997). The main objective of that document is '... to define and to outline a set of consistent medium-term economic and social policies required to complete the economic transformation of the country and to prepare its economy for accession to the EU'. Drawing

on this strategy and other strategic documents, some crucial questions are raised regarding the costs and benefits of accession to the EU. In fact, it is a somewhat difficult undertaking to distinguish between the effects induced by the essential economic and social policies aimed at completing the country's transition to a market economy and those caused by the need to approximate conditions in the EU. The target-date set implies that most of the reforms and institutional regulatory adaptations will have to be completed by the end of 2001. A number of factors will militate against this objective; it is quite possible that Slovenia will fall into the trap of ever-increasing delays with all their negative consequences. Moreover, if this problem is set aside, the effects of reform will extend beyond the pre-accession period into the post-accession period of transition. It is clear that the strategy was excellently prepared albeit at very short notice, using several existing documents and studies. The essential estimation of possible costs and benefits (for each macroeconomic policy and sectoral structural reform) would have taken much more time and called for additional efforts, yet that information would undoubtedly have been necessary in order to detect looming problems and take the requisite counter-measures to overcome or at least diminish those problems.

Research studies on costs and benefits of accession were mainly prepared for specific sectors, and only few comprehensive studies analysing the effects of the accession on the macroeconomic aggregates exists. One of the most appropriate tools for the quantitative assessment of costs and benefits at the macro and sector level would be the use of a macroeconomic econometric model. Due to the problems with short time series and parameter estimation, research activities turned to the development of partial or general equilibrium models based on the social accounting matrix which best meets the integrity and consistency criteria. The models developed focused primarily on estimating the effects of the foreign trade liberalization process that emerged in Slovenia with the introduction of new customs tariffs, full implementation of the Europe Agreement with the EU and the free-trade agreement with the EFTA countries, and the adoption of the Common Customs Tariff after accession to the EU (Majcen and Potoènik, 1996; Potoènik, 1996, 1997; Buehrer and Majcen, 1999). Some studies went on to estimate the effects of adopting CAP at different stages of development (Majcen and Potoènik, 1997) and the effects of entry into the EU (Caf and Damijan, 1995). Recent research work at the Institute for Economic Research has been directed towards developing a two-region CGE model, EU and Slovenia being the two regions, while work on developing the HERMIN macroeconometric model is in progress (Kuzmin et al., 1998).

Simulation results with the partial equilibrium model (Caf and Damijan, 1995) were highly dependent on the character of competition. Simulations of perfect and monopolistic competition give similar results for the cumulative increase of GDP for all three phases – 3.5% and 3.2% respectively. Simulation results of the oligopolistic competition seem to be

more realistic.<sup>12</sup> In this case, Slovenian firms in all three phases of the integration into the EU could cumulatively reduce production costs by at least 5.3%. The overall cumulative effect on the GDP would be 8.8%, which is about one quarter of the predicted increase of Slovenia's GDP for the period 1996-2002.

CGE simulation results (Potoènik and Majcen, 1996) undoubtedly reveal the fact that the effects of Slovenia approaching the EU are highly dependent also on the macroeconomic framework set and maintained by the government with its short- and long-term actions. The results at the aggregate level confirm the considerations that the contracted budget revenues which would occur as a result of lower import duties is only one possible outcome. Appropriate steps towards more rational government consumption and lower energy consumption could even result in higher budget revenues. The economy that is already very open today certainly has chances to survive the entire abolition of remaining import duties without profound shocks – further foreign trade liberalization will cause not only the substitution of domestic products with imported ones but also an increase in GDP, employment and exports. There is a chance of product specialization with an increase in variety and quality of the products offered to the domestic consumers.

Positive effects at the macro level were also found with the recently developed CGE model, based on the 1993 SAM and with different specification of equations, different elasticities of substitution and transformation, and the introduction of an AIDS function (and thus the use of different income elasticities) in modelling the combined product (Buehrer and Majcen, 1999). The estimated real changes of the aggregate GDP (assuming full employment of labour and capital) were small but positive (0.12% to 0.49%). With the possibility of adaptation of the quantity of labour (implicitly assuming the existence of unemployment) the simulation results show that further trade liberalization and adoption of the EU Common Customs Tariff will cause an increase in employment (0.7% to 2.1%), aggregate GDP (0.8% to 1.9%), exports (5.8% to 10.6%) and imports (5.9% to 10.6%), and a decrease of domestic prices (-3.1% to -2.6%). The importance of the particular phases of further trade liberalization were also estimated: despite different results due to the different assumptions the most important turned out to be the adoption of the Europe Agreement (above 50% of total effects), followed by the adoption of the new customs system (which incorporates also the obligations of Slovenia towards the WTO; 30-40% of total effects), and the adoption of the EU Common Customs Tariff (10-20% of total effects).

The simulation results of the different models used to assess the possible overall/macro impact of Slovenia approaching the EU are obviously positive ones, with differences due to the character of the models (partial–general equilibrium) and the assumptions made

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<sup>12</sup> The following three phases were simulated: (i) adoption of the new Customs Tariff, (ii) completion of the Europe Agreement, and (iii) accession to the EU.

(competition, economies of scale, specifications of equations, values of elasticities of substitution and transformation and the behaviour of the government). Unfortunately, they were all analysing only a fraction (though indeed an important one) of the accession process – further trade liberalization through the adoption of the new customs system, Europe Agreement and the EU Common Customs Tariff.

Recent research activities are focused mainly on the preparation of partial studies as a basis for the preparation of the Slovenian negotiating positions in some of the 31 chapters. There were no attempts to assess the effects of the adoption of the acquis, and one important element is still missing in the implementation of the 'EU Accession Strategy of the Republic of Slovenia' – the estimation of the costs and benefits of the declared reforms for each particular policy and possible effects of the status quo situation.

As a country in transition, Slovenia should be concerned primarily with achieving economic stabilization and effecting the structural reforms needed for sustainable growth. The fundamental prerequisite for successful integration in an economic union is that integration benefits both partners. This implies that: (i) the economic system will achieve an adequate degree of compatibility with that of the EU; (ii) the accessing country will develop an adequate level of competitiveness; and (iii) a politically and socially acceptable adjustment process will give rise to conditions that permit sustainable growth within the new open EU environment. It is, thus, a somewhat difficult undertaking to distinguish between the effects induced by the essential economic and social policies aimed at completing the country's transition to a market economy and those caused by the need to approximate conditions in the EU. Hitherto, no such attempt has been made. It can only be concluded that almost all studies on the costs and benefits of accession to the EU assess both effects and fail to distinguish explicitly between the pre-accession period (implementation of the Europe Agreement and its cumulative effects), actual accession and the post-accession period of adaptation.

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## **2. Regional economic developments**

### **2.1 The Austrian–Slovenian border regions**

The Austrian–Slovenian border area comprises on the Austrian side the NUTS-3 regions Eastern Styria, Western and Southern Styria, Lower Carinthia and Klagenfurt-Villach.<sup>13</sup> The Slovenian border area comprises the five statistical regions Pomurje, Podravlje, Koroška, part of Savinjska and Gorenjska.

#### **2.1.1 The Austrian border regions**

The southern border region is the most heterogeneous among the Austrian border regions, encompassing the major Carinthian tourist destinations as well as peripheral areas of Styria. The Austrian southern border region has a population of about 700 thousand people. An unfavourable demographic feature of Carinthia is migration of qualified people (brain drain), in particular to Vienna and Graz. This has been caused by the weak economic development in Carinthia, but also by the fact that for a long time technical training centres in the tertiary sector were lacking (Amt der Kärntner Landesregierung, 1998). Long-term projections for Carinthia as a whole indicate a decrease of the population, especially in the peripheral regions; for instance, for the district of Wolfsberg a population decline of 16% is expected between 1991 and 2021. On the other hand, the relative attractiveness of the high-density regions is increasing. All in all, but especially in the border districts, the proportion of those exceeding 60 years will increase substantially (by about 50%) over that period. Population is also expected to decline in Styria as a whole, while in the border region the number of inhabitants is projected to remain stagnant. The projections for individual districts indicate a 10% population decline in the district of Radkersburg, but an increase for Leibnitz, Deutschlandsberg and also for Graz-Umgebung (not defined as a border area).

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<sup>13</sup> The Styrian border region ('steirisches Grenzland' or 'steirische Grenzregion') is also defined as the districts of Deutschlandsberg, Feldbach, Fürstenfeld, Hartberg, Leibnitz, Radkersburg and Weiz. The Carinthian border districts are Klagenfurt, Villach, Klagenfurt Land, Villach Land, Völkermarkt and Wolfsberg.

## Output

In 1996 the two provinces Styria and Carinthia generated 12.1% and 5.6% respectively of Austria's overall GDP. Along with Burgenland, both states are ranking on the lower end measured by the GDP per capita. Compared to the national average, the economic level of Styria and Carinthia is about 20 percentage points each below average, that of Western and Southern Styria and Lower Carinthia by about 40 pp, and that of Eastern Styria is even 45 pp lower than the Austrian average.

As regards the contribution to regional output, in both Carinthia and Styria the dominant regions are those around the capital cities, producing almost 60% (Klagenfurt) and 42% (Graz) of the respective regional GDP. Lower Carinthia has an output share of slightly more than one fifth of Carinthia's total, while the contributions of Eastern Styria and Western and Southern Styria account for about 15% and 12% respectively of the province's total output (latest data available for 1995).

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Table 7

### **Styria, Carinthia: Regional gross domestic product per capita, index, 1995**

AUSTRIA	100
<b>Styria</b>	80.0
Graz	110.0
Eastern Styria	54.9
Western and Southern Styria	60.4
<b>Carinthia</b>	81.8
Klagenfurt-Villach	99.5
Lower Carinthia	62.4

Source: Austria: ÖIR, WIFO, ÖSTAT.

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Map 1

Österreichs EU-Außengrenze (Städte)

Regionale Abgrenzung INTERREG II bzw. PHARE CBC

electronically not available

Map 2

Österreichs EU-Außengrenze  
Siedlungsschwerpunkte und Infrastruktur

electronically not available

In all Austrian regions along the border with Slovenia – except Klagenfurt-Villach – the agricultural sector plays a more important role than on the national average (measured as a share of regional GDP). The proportion of the secondary sector in Lower Carinthia and in all Styrian border regions is also higher than the Austrian average. In most regions, again with the exception of Klagenfurt-Villach, the services sector is less developed than the national average. Construction is an important employer in Lower Carinthia, absorbing about one tenth of total employed. In all three main regions of Carinthia, including the border area, tourism plays an important role as well. Tourism is also an important economic factor in the Styrian border region. About 30% of total overnight stays of the province are reported in that area. Employment in tourism shows an above-average proportion if compared with the Styrian average and is mainly concentrated in four districts – Fürstenfeld, Hartberg, Radkersburg and Weiz. With the exception of Weiz, the importance of tourism is based on thermal waters.

Industry locations along the border area are the Klagenfurt-Villach region and the districts of Deutschlandsberg and Leibnitz. Industry in Carinthia is dominated by electrical engineering, chemical and metalworking industries and machine-building, in the Styrian regions industry concentrates on metalworking and electrical engineering. The bulk of industrial jobs is concentrated in a few big enterprises.

### *Employment*

Over the last decade employment in all Styrian border regions but Leibnitz developed more dynamically than the province and the national average. Between 1989 and 1999 the number of employees increased by 11.8% in the province of Styria, with the strongest rise in Radkersburg (59%), Feldbach and Deutschlandsberg (by about 20% each), Fürstenfeld (23%) and Hartberg (17.3%), while in Leibnitz employment grew only 8.3%.<sup>14</sup> In contrast, employment in Carinthia rose only by 4.5% over the same period. Above-average job increases were reported for the border regions: Wolfsberg (23.6%), Klagenfurt-Land (12.7%), and Völkermarkt (10.2%). The weak employment growth in Carinthia becomes even more evident if one looks at the developments between 1994 and 1999: over that period the number of employees rose by 1.5% only (Styria 7.2%, Austria 3.2%). Again Wolfsberg recorded the strongest employment increase (14.5%), followed by Klagenfurt-Land (8.8%).

Data available for the 1989-96 period show that the employment of foreigners has contributed significantly to the employment increase in Styria. Of the 16 thousand jobs created in Styria over that period, the bulk (83%) was due to the additional employment of foreigners. Thus, also the outstanding employment increase in Radkersburg is mainly resulting from an enhanced employment of foreigners, accounting for 16.7% of total

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<sup>14</sup> Data refer to the end of July of the respective year.

employees in 1999 – the highest proportion of foreign employment among all Styrian districts (Styrian average: 4.8%). In Carinthia the share of foreign employees – 6.2% of the total – is higher than in Styria, but lower than the Austrian average (8.7%).

In Carinthia and Styria, labour force participation rates (here: share of labour force in total population) are below the national average (48.1%). The rate reported for Carinthia (44.1%) is the lowest among all Austrian provinces. Calculations show above-average activity rates for all Styrian border districts, especially in Radkersburg, Feldbach and Fürstenfeld, exceeding the average level by up to 2.4 percentage points.

Table 8

### Unemployment in Austrian regions bordering Slovenia, end of 1999

	total	share of women in %	rate in % total	rate in % male	rate in % female
AUSTRIA	242308	40.8	7.1	7.3	6.9
<b>Styria</b>	37518	41.5	7.8	7.7	8.0
<i>Eastern Styria</i>	8646	35.5	8.6	9.0	7.9
Feldbach	1976	34.4	7.8	8.4	7.0
Fürstenfeld	761	33.1	8.5	9.7	6.8
Hartberg	2619	40.2	10.3	9.9	11.0
Mureck	793	33.3	8.6	9.5	7.2
Weiz	1380	36.1	6.9	7.1	6.7
<i>Western &amp; Southern Styria</i>	6225	39.4	8.2	8.2	8.7
<i>Deutschlandsberg</i>	1844	38.4	7.5	7.5	7.5
Leibnitz	2607	39.6	9.1	8.8	9.7
<b>Carinthia</b>	21670	40.4	9.9	10.0	9.7
<i>Klagenfurt-Villach</i>	9776	42.8	8.8	8.9	8.8
Klagenfurt	5175	39.8	8.3	9.1	7.3
Villach	4601	46.2	9.6	8.7	11.0
<i>Lower Carinthia</i>	6322	39.1	10.6	10.6	10.7
Völkermarkt	2173	37.6	13.2	13.7	12.5
Wolfsberg	2072	40.9	9.9	9.3	10.6

Source: Public employment service.

In 1999 Carinthia and Styria ranked second and fourth concerning the highest unemployment levels among Austrian provinces (according to registration data).<sup>15</sup> The unemployment rates exceed the national average both in the Styrian and in the Carinthian regions bordering Slovenia. The stronger some districts are dependent on traditional industrial branches and/or on individual enterprises, the worse are the conditions on the

<sup>15</sup> The highest unemployment rate was reported for Burgenland (11%), it was lowest in Voarlberg (4.9%).

labour market (ÖIR, 1998). In Eastern, Western and Southern Styria the unemployment rate reached 8-9% in December 1999, with Hartberg and Leibnitz reporting 10.3% and 9.1% respectively. Carinthia as a whole is more affected by unemployment than Styria: the districts of Völkermarkt and Wolfsberg reported unemployment rates of 13.2% and 9.9% respectively in 1999. The results presented by the Labour Force Survey (LFS-Eurostat methodology) show a similar picture: according to the data for 1998, Carinthia ranked among those Austrian provinces reporting the highest unemployment rates, in Styria the rate was slightly below the national average.<sup>16</sup>

In Styria the unemployment structure in the border area is rather different from other Styrian regions: the share of young jobseekers in total unemployed is higher, while that of older unemployed is lower than the province average.

For the Styrian border regions one may conclude that

- the opening of the east has brought about positive employment effects;
- men have benefited more than women from employment increases. There is some evidence that in border regions there is even an above-average tendency to substitute foreigners for female labour force;
- the competitive pressure in industry triggered by imports from the east affects primarily wages of non-mobile labour force and the employment and unemployment risk of older or poorly qualified people and low-wage earners;
- highly-qualified, mobile, young and higher wage earners were more likely to handle the competitive pressure or could even benefit from it;
- the increase of foreign workers has entailed an intensification of already existing disparities on the labour market. Lower qualified workers and those with changing jobs, who are repeatedly affected by unemployment, get increasingly under pressure. Also the wage differential can be assumed to increase.

Based on these experiences Barwinek and Kirisits reckon with strongly differentiated impacts of the EU enlargement on the Styrian border regions, especially with respect to older and younger employees. Accordingly, youth unemployment is expected to decline, while at the same time unemployment of older persons may increase. Thus, the labour market in the border regions would adjust to the province average. However, favourable employment effects for young people can fully take effect only by improving the qualification of young people in the border regions. Otherwise substantial competition can be expected from (Northern) Slovenia, with its important training centre in Maribor.

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<sup>16</sup> In 1998 Austria's LFS unemployment rate stood at 4.8%; the rates of the individual provinces were as follows: Upper Austria 3.2%, Lower Austria 3.7%, Salzburg 3.9%, Burgenland 4.1%, Vorarlberg 4.2%, Styria 5%, Tyrol 5.5%, Carinthia 5.6%, and Vienna 6.8%.

## 2.1.2 The Slovenian border regions

The Statistical Office of the Republic of Slovenia has just recently published first estimates of gross domestic product and gross value added at the regional level for 1996. As we have data for 1996 only, it is not possible to judge the development potential of a particular region, but we can observe the disparities between the regions. The highest GDP per capita was (as expected) generated in the central region, exceeding the national level by 28%. The central region accounts for approximately one third of the country's GDP. Its GDP per capita is 1.7 times higher than in the Pomurska region, where the GDP per capita was the lowest, reaching only 77.8% of the national average.

Table 9

### Slovenia: GDP per capita in 1996 by statistical regions

	in USD (at current prices and current exchange rate)	level compared to Slovenian average	level compared to Austrian average
Central region	12,169	128.5	43.0
Coastal region	9,687	102.3	34.2
Gorenjska	8,751	92.4	30.9
Goriška	9,341	98.6	33.0
Savinjska	8,953	94.5	31.6
Dolenjska	9,274	97.9	32.8
Pomurska	7,371	77.8	26.0
Karst	8,169	84.8	28.9
Podravska	7,768	82.0	27.4
Koroška	8,169	86.3	28.9
Posavska	8,582	90.6	30.3
Zasavska	7,999	84.5	28.3
SLOVENIA	9,471	100	33.5

Source: SURS, Statistical information, June 1999.

The average gross wage per employee in Slovenia in 1998 amounted to SIT 158,069 – ATS 11,230 at current exchange rates and close to 40% of the average gross wage per employee in 1998 in Austria. In 1997 and 1998, the average gross wage per employee in the Slovenian–Austrian border regions was below the Slovenian average (see Table 10).

The tax basis for income tax per inhabitant (available for 1996) as a substitute measure of disposable income in the region showed that Savinjska, Koroška, Pomurska and Podravska are again below the national average, while Gorenjska was slightly above the average (with some critical border municipalities as for example Jesenice with steel works) and often daily commuting to Ljubljana.

Table 10

**Gross average wage per employee in border regions  
compared to average level in Slovenia**

	1994	1997	1998
Gorenjska	86.8	93.8	95.3
Savinjska	94.9	93.0	91.0
Koroška	113.8	87.6	85.4
Podravska	89.4	91.4	93.2
Pomurska	91.4	87.6	86.9
SLOVENIA	100	100	100

*Source:* SURS, own calculations.

*The economic structure of the Slovenian border regions*

Similar to the Austrian side, the Slovenian border regions show an uneven picture. In all regions except Gorenjska, the share of agriculture in total output exceeds the national average and is particularly strong in Pomurje, bordering Styria. Tourism plays an important role in the north-western part of Slovenia, but also in the Savinjska region with its health resorts. Industry is, apart from Ljubljana, most concentrated in traditional industrial zones such as Jesenice, Kranj, Celje, Velenje and Maribor. The main industrial branches are basic industry, production of electrical equipment, machinery and equipment. The services sector (financial services, trade, tourism etc.) has been experiencing a dynamic development in urban areas. (See Tables 11 to 14 and Annex Table A/5.)

A breakdown of the individual border regions shows the following picture:

– *Gorenjska*

The most important sector in the region is manufacturing, which is a real engine of the economic development in the Gorenjska region, especially large companies. The most important industrial branches of the region are manufacturing of electrical and optical equipment, manufacturing of machinery and equipment, manufacturing of leather and leather products, manufacturing of textiles and textile products and manufacturing of rubber. Some companies in the Gorenjska region are very good also for European standards (Iskratel Kranj, Iskraemeco Kranj, Sava Kranj, Termo Škofja Loka, Domel Železniki, Elan Begunje, ...). The situation is still difficult in some branches – manufacturing of textiles & textile products, steel industry and manufacturing of leather and leather products (production of shoes). Those are more or less labour-intensive companies and bankruptcy of those companies would cause big unemployment, especially in some municipalities (Tržiè, Jesenice).

The services sector employment is also quite strong; the most important branches are trade and financial services, also tourism plays an important role (lakes, ski resorts, mountains). Construction is quite an important sector in this region, but in the last years the companies in the construction sector had financial problems. The agricultural sector is of minor importance, but there are some very successful farms in the region.

– *Savinjska*

Industry is the dominant sector in the region. Not only the manufacturing sector, but also coal mining (coal mine in Velenje), supply of energy (steam power plant in Šoštanj) are important. The most important industrial branches in the Savinjska region are manufacturing of machinery and equipment, manufacturing of basic metals and fabricated products, manufacturing of other non-metal mineral products, manufacturing of chemicals, manufacturing of food, beverages and tobacco and manufacturing of textiles and textile products. The region's economic decline began after 1989 and accelerated after 1992. Over the last ten years the number of people employed has fallen very sharply. Economic growth of the region was based on the growth and development of large companies and business systems. Some companies sensed approaching crisis early enough and adapted to the market economy very quickly, but some did not. Especially labour-intensive companies and companies which were operating in non-competitive market conditions were hardest hit by the transition. Today some companies enjoy a world-wide reputation and have improved their results in 1996 and 1997 considerably, but the overall situation is still not very promising.

The services sector has increased its share in the region's economy, especially financial companies. The Savinjska region is characterized by an above-average concentration of health spa tourism. In 1996 the six spas in the region (Toplice Dobrna, Zdravilišče Laško, Zdravilišče Atomske Toplice, Zdravilišče Rogaška, Terme Topolšèica and Terme Zreèe) registered 46.8% of all overnight stays in Slovenian natural health spas. Construction is an important sector in this region. Companies in the agricultural sector are not important for the region's economy.

– *Pomurje*

The economic power of the Pomurje region's enterprises is below the Slovenian average. The enterprises have worsened their results in 1997, but the situation improved in 1998. The most important sector in the region is manufacturing. Transition hit manufacturing in Pomurje considerably. Especially manufacturing of electrical and optical equipment, manufacturing of machinery and equipment and manufacturing of food, beverages and tobacco were hit by the transition. The most important industrial branches in Pomurje are manufacturing of textiles & textile products (Mura, Murska Sobota), manufacturing of food, beverages and tobacco and manufacturing of petroleum (Nafta Lendava). The most

intensive period of company restructuring (organizational and ownership restructuring) in manufacturing companies is drawing to a close, but is still not finished. The biggest problem of industry in Pomurje is that industrial branches are labour-intensive and low-tech. The result is low value added and lack of competitiveness as a consequence of high labour costs in comparison with the CEE countries.

The services sector has increased its share in the region's economy, but is still below the Slovenian average. One of the biggest problems in Pomurje is a low proportion of market oriented services. That is a consequence of industry structure in Pomurje and poorly educated population. Construction is a quite important sector in this region and it will be gaining importance also in the future (building of infrastructure - highway and railroad).

The agricultural sector is comparatively strong. The agricultural economy has suffered from the fact that farms are too small, thus leading to a lack of intensified farming and high level of part-time farming. In Slovenia, while Pomurje's agriculture did not suffer as much as that in other CEECs, the shock produced by the loss of the Yugoslav market has been dramatic in light of the significant weight of agriculture in the regional economy. The rapidly ageing population, non-competitive production and the lack of effective marketing structures have put the agricultural sector into a critical state.

– *Podravska*

The Podravska region was one of the first hit by restructuring problems and it has not regained its balance yet. The enterprises of the region are still performing very badly and they contributed more than a half of all losses in Slovenia. Manufacturing is still quite strong. The most important industrial branches in the Podravska region are manufacturing of basic metals and fabricated products, manufacturing of textiles & textile products and manufacturing of machinery & equipment. The losses are concentrated in the these three branches, but also other parts of the region's economy are in a bad position. Other important industrial branches are manufacturing of electrical and optical equipment, manufacturing of transport equipment and manufacturing of food, beverages and tobacco. There are also successful companies in the region, but some big industrial companies still reported big losses in 1997 and that shows that the situation is still not "clear".

The services sector is increasing its share in the region's economy. Because of the downsizing of the industrial enterprises, the share of services sector employment went up; an increase in absolute terms has been achieved only in administration and in self-employment (the same as in other regions). Construction is an important sector in this region. The agricultural sector is comparatively important, acting as a buffer against unemployment.

Map 3

## **Slovenian statistical regions**

electronically not available

Table 11

### Basic socio-economic indicators for Slovenian statistical regions

Region	Population growth		Density Persons/ km <sup>2</sup>		Ageing index		Gross value added per employee (RS=100)		Gross value added per inhabitant (RS = 100)		The basis for income tax per inhabitant (RS = 100)		Unemployment rate (in % of working age population)		Unemployment rate (RS = 100.0)	
	1997/91	1997	1991	1997	1991	1994	1997*	1991	1994	1997 <sup>†</sup>	1992	1996	1991	1997	1991	1997
Central region	3.0	146	50	73	117	117.1	116.0	140.1	142.8	149.4	116.9	120.9	4.5	7.1	97.4	75.5
Coastal region	3.1	99	61	93	116	108.9	111.7	100.4	102.3	102.8	105.0	110.1	5.6	6.9	121.7	73.7
Gorenjska	2.2	92	47	68	87	94.5	90.0	91.0	103.1	96.5	106.3	100.9	5.0	7.7	106.8	82.2
Goriška	0.4	52	68	93	111	102.7	104.7	108.0	101.3	103.0	112.5	106.4	2.9	6.1	62.3	64.6
Savinjska	0.6	108	48	68	91	94.1	93.7	90.5	94.9	89.9	92.1	92.4	3.9	10.7	84.8	114.0
Dolenjska	2.0	63	45	61	94	98.6	110.1	101.9	110.2	102.3	93.8	93.9	3.0	8.4	64.4	88.8
Pomurska	-3.1	94	66	86	99	86.0	75.9	65.0	62.6	52.9	74.4	77.5	5.8	11.9	125.4	126.2
Karst	1.0	35	66	88	84	87.4	86.1	67.4	71.4	61.1	103.0	96.8	4.0	7.8	86.2	83.2
Podravska	-0.2	148	57	80	82	78.6	85.2	78.7	62.2	71.7	86.3	84.2	5.9	14.5	127.1	153.5
Koroška	0.2	71	42	62	63	89.1	72.9	56.9	62.1	68.2	92.4	87.1	3.4	8.1	74.1	85.6
Posavska	-1.7	80	62	81	138	105.0	83.5	95.5	77.6	55.3	82.6	85.2	4.2	10.9	89.9	115.4
Zasavska	-1.0	178	58	86	81	79.2	89.4	84.2	105.8	83.1	105.6	96.9	5.9	11.4	126.7	120.5
Slovenia	1.1	98	53	76	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	4.6	9.4	100.0	100.0

*Note:* \* IMAD has changed the methodology. Comparisons between various years should serve only as a rough measure.

Table 12

**GDP structure in Slovenian statistical regions by industries**

	Slo.	Cent.	Coast.	Gore.	Gori.	Sav.	Dol.	Pom.	Karst	Pod.	Kor.	Pos.	Zas.
A. Agr., hun., forestry	4.4	1.8	3.7	3.0	5.3	4.6	7.2	12.8	10.6	5.4	5.8	8.4	3.5
B. Fishing	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Mining&Quarrying	1.4	0.6	1.2	0.3	0.5	4.9	0.7	0.3	0.6	0.3	2.6	1.4	11.5
D. Manufacturing	27.7	22.2	16.7	38.4	30.2	31.3	38.0	31.5	31.8	25.8	39.1	23.4	32.4
E. El., gas, water supply	2.9	1.8	1.6	2.2	2.8	4.2	2.2	1.7	1.9	2.8	4.9	13.7	7.5
F. Construction	5.6	5.1	5.7	4.7	6.1	6.6	6.6	5.7	5.5	6.2	4.5	4.8	5.4
G. Wh., ret., cer. repair	11.6	15.2	13.7	10.1	9.9	9.9	7.1	9.3	7.6	10.9	6.7	8.0	6.9
H. Hotels, restaurants	3.1	2.1	6.2	3.9	7.2	2.7	2.7	3.4	3.2	2.6	2.4	3.0	1.3
I. Tra., stor., communic.	7.6	7.5	13.3	9.3	7.2	7.0	6.1	5.5	11.2	7.4	5.4	6.0	4.4
J. Fin. intermediation	4.2	6.1	4.5	2.3	3.4	2.7	3.8	2.6	2.5	4.2	2.4	2.8	2.5
K. R. estate, Ren.&bus.	11.8	14.9	9.6	9.6	8.3	10.2	9.3	9.3	8.8	13.5	10.8	8.4	9.9
L. Pub. Adm., defence	5.3	7.3	5.6	3.9	4.4	3.4	4.8	4.4	6.8	4.5	3.9	4.8	2.9
M. Education	5.6	6.2	5.1	4.8	4.8	4.7	4.7	5.5	5.2	6.8	5.3	4.1	4.6
N. Health, social work	5.3	4.9	5.4	4.3	4.8	5.1	5.5	6.6	3.2	6.4	4.7	9.7	4.7
O. Oth. Soc&p. services	3.5	4.4	7.5	3.1	5.2	2.5	1.4	1.4	1.1	3.0	1.6	1.5	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SORS.

Table 13

**Share of Slovenian statistical regions in Slovenian GDP by industries**

	Slo.	Cent.	Coast.	Gore.	Gori.	Sav.	Dol.	Pom.	Karst	Pod.	Kor.	Pos.	Zas.
A. Agr., hun., forestry	100.0	13.5	4.5	6.1	7.2	12.8	8.4	14.3	5.1	16.2	4.2	6.1	1.6
B. Fishing	100.0	23.1	44.6	2.1	2.3	2.1	6.7	0.0	1.9	14.4	2.4	0.3	0.0
C. Mining&Quarrying	100.0	13.6	4.8	2.0	2.0	43.8	2.8	1.2	1.0	2.8	6.1	3.3	16.7
D. Manufacturing	100.0	26.8	3.2	12.6	6.5	13.8	7.1	5.6	2.5	12.3	4.5	2.7	2.3
E. El., gas, water supply	100.0	20.6	2.9	6.7	5.6	17.5	3.9	2.9	1.4	12.8	5.3	15.1	5.1
F. Construction	100.0	30.6	5.4	7.6	6.5	14.4	6.1	5.1	2.1	14.8	2.6	2.8	1.9
G. Wh., ret., cer. repair	100.0	43.9	6.2	8.0	5.1	10.5	3.2	4.0	1.4	12.4	1.9	2.2	1.2
H. Hotels, restaurants	100.0	22.9	10.7	11.6	14.0	10.7	4.5	5.5	2.3	11.3	2.5	3.2	0.9
I. Transport, storage, communic.	100.0	33.0	9.2	11.1	5.6	11.3	4.2	3.6	3.2	12.9	2.3	2.5	1.2
J. Fin. intermediation	100.0	48.8	5.7	5.0	4.8	8.0	4.7	3.1	1.3	13.4	1.9	2.2	1.2
K. R. estate, ren.&bus.	100.0	42.1	4.3	7.4	4.2	10.5	4.1	3.9	1.6	15.0	2.9	2.3	1.7
L. Pub. Adm., defence	100.0	46.1	5.6	6.6	4.9	7.8	4.6	4.0	2.7	11.2	2.3	2.9	1.1
M. Education	100.0	37.4	4.9	7.8	5.1	10.4	4.4	4.8	2.0	16.1	3.1	2.4	1.7
N. Health, social work	100.0	31.1	5.3	7.4	5.4	11.7	5.3	6.1	1.3	15.8	2.8	5.9	1.8
O. Oth. Soc&p. services	100.0	42.2	11.4	8.2	8.9	8.8	2.0	2.0	0.7	11.5	1.5	1.4	1.4
Total	100.0	33.5	5.3	9.1	6.0	12.2	5.2	4.9	2.2	13.2	3.2	3.2	2.0

Source: SORS.

Table 14

**GDP per capita in Slovenian statistical regions**

	Slo.	Cent.	Coast.	Gore.	Gori.	Sav.	Dol.	Pom.	Karst	Pod.	Kor.	Pos.	Zas.
GDP per capita in current prices - USD	9,471	12,169	9,687	8,751	9,341	8,953	9,274	7,371	8,033	7,768	8,169	8,582	7,999
GDP per capita (Slovenia = 100)	100.0	128.5	102.3	92.4	98.6	94.5	97.9	77.8	84.8	82.0	86.3	90.6	84.5

Source: SORS.

Table 15

**Basic socio-economic indicators for the regions  
Koroška, Podravska, Pomurska, Savinjska and Gorenjska**

	<i>Slovenia</i>	<i>Kor.</i>	<i>Podr.</i>	<i>Pom.</i>	<i>Sav.</i>	<i>Gor.</i>
Surface (km <sup>2</sup> )	20,274	1,041	2,169	1,338	2,384	2,137
Population (31.12.1996)	1,986,989	73,965	320,361	126,224	256,456	195,372
Density/persons per km <sup>2</sup> (1997)	98	71	148	94	108	92
Population growth 1991-1997	1.1	0.2	-0.2	-3.1	0.6	2.2
Ageing index (in %)						
– 1991	53	42	57	66	48	47
– 1997	76	62	80	86	68	68
Structure of active population in 1991 in %						
– agriculture	13.7	13.8	16.8	37.0	15.6	7.0
– industry	45.6	43.8	43.5	38.6	50.5	56.6
– market services	18.4	13.2	17.3	10.9	16.6	18.0
– non-market services	21.9	29.2	21.9	13.3	16.9	17.8
Population above 15 with third level education (1991)	9.0	6.6	7.9	5.1	6.8	8.6
Share of students in the whole population (1996)	33.1	31.4	30.3	23.4	30.5	35.4
Years of education per capita (1991)	9.6	9.2	9.6	8.7	8.9	9.2
Unemployment rate (in % of working age population)						
– 1991	4.6	3.4	5.9	5.8	3.9	
– 1994	9.6	7.1	14.2	10.4	9.7	5.0
– 1997	9.4	8.1	14.5	11.9	10.7	7.7
Unemployment rate in the population below 26 (1997)	12.2	11.8	18.9	18.9	14.6	8.5
Unemployment rate in the female population (1997)	9.7	9.1	14.7	10.6	11.2	8.6
Unemployment rate in the male population (1997)	9.2	7.2	14.2	13.0	10.3	7.0
Gross value added per employee (RS = 100)						
– 1994	100.0	89.1	78.6	86.0	94.1	94.5
– 1997	100.0	72.9	85.2	75.9	93.7	90.0
Gross value added per inhabitant (RS = 100)						
– 1994	100.0	62.1	62.2	62.6	94.9	103.1
– 1997	100.0	68.2	71.7	52.9	89.9	96.5
GDP per capita in 1996	100.0	86.3	82.0	77.8	94.5	92.4
Net revenue from exports as a share of total revenue						
– 1994	13.5	34.1	20.4	19.7	25.1	31.4
– 1997	23.8	43.9	21.2	20.5	26.2	31.1
Average gross wage per employee (RS = 100)						
– 1994	100.0	113.8	89.4	91.4	94.9	86.8
– 1997	100.0	87.6	91.4	87.6	93.0	93.8
Gross basis for income tax per inhabitant (RS = 100)						
– 1992	100.0	92.4	86.3	74.4	92.1	106.3
– 1994	100.0	86.5	83.8	78.4	92.9	101.3
– 1996	100.0	87.1	84.2	77.5	92.4	100.9

## – *Koroška*

Koroška region is one of the least developed regions in Slovenia with old industry. The net loss of enterprises in the Koroška region is since independence very high (only the Podravska region experienced higher net losses) and the situation is not improving. The most important sector in the region is manufacturing. The most important industrial branches in the Koroška region are manufacturing of basic metals and fabricated products, manufacturing of textiles & textile products, manufacturing of machinery & equipment and manufacturing of electrical and optical equipment. Great losses in the last three years are concentrated in the steel works in Ravne and in some furniture and textile manufacturing enterprises. There are also successful manufacturing companies in the region which are performing well (e.g. Johnson Controls-NTU, TUS Prevent) and are already adapted to the international standards. The restructuring of industrial companies in the region is still not finished. The services sector is quite weak; the importance of construction in the Koroška region is decreasing. Agriculture is above the average for Slovenia, but not very important.

### *Unemployment*

Slovenia in general and the border regions in particular were suffering from heavy employment cuts over the 1990-1997 period; the regions of Podravska and Gorenjska were (together with Zasavska and Karst) hardest hit. The unemployment rates in the Podravska region is highest among all Slovenian regions and is still slightly on the increase. The impact of the economic crisis in Maribor on the neighbouring municipalities has been considerable: the commuters from economically weak agricultural municipalities were the first to lose their jobs (over the last 15 years 20 thousand jobs were lost in the industry in Maribor). Consequently the unemployment rate is very high in all municipalities of the Podravska region. Also in the Savinjska region unemployment exceeds the national average, increasing considerably in 1996 and especially in 1997 (restructuring of region's economy is still not concluded). Women and young people are most affected by unemployment. Most of the unemployed are unskilled and semi-skilled.

The Pomurska region reports the third highest unemployment rate among all Slovenian regions (Pomurje had the highest rates of unemployment during previous years). The high level of unemployment is first, a consequence of agricultural overpopulation and second a consequence of closure of industrial enterprises in the Pomurje and in the neighbouring Podravje. Youth unemployment is highest among all regions and that shows that they are also insufficient and inappropriate trained and educated.

In the Gorenjska region the unemployment rate is below the national average, but some big companies are facing serious problems (like the production of shoes and steel). The unemployment rate is rising fast in the Koroška region but it is still below the national average, partly because of government's subsidies for the steel works, partly because of

the border position of the region with rather well developed links with the Austrian side. Many discouraged workers do not register as job seekers any more. In 1997 there were 352 jobs per 1000 inhabitants in the region (national average 378), most of them were in enterprises and companies (80%) whereas the percentages of self-employed, private entrepreneurs, own account workers and farmers are all lower than the national average – local initiatives are not strong.

## **2.2 Development of Slovenian regions since 1990**

Studies and analyses made in the early 1990s distinguished four different groups of Slovenian regions, according to their level of economic development in 1990, their economic structure and an evaluation of their natural, human, financial and infrastructure potentials:

1. Economically more developed regions with a prospective economic structure and positively evaluated development potentials: Central region, Coastal region, Gorenjska region.
2. Economically medium developed regions with a fairly prospective economic structure and mostly positively evaluated development potentials: Savinjska, Dolenjska, Goriška region.
3. Less developed regions with a prospective structure of the economy: Pomurska, Karst region.
4. Medium developed regions with a problematic economic structure but with some positively evaluated development potentials: Podravska, Koroška, Posavska region and Zasavska region as a region in industrial decline.

The process of the restructuring of the economy and transition from a socialist to a market economy has influenced the economic position of the regions in different ways. In the period 1991-1997 (1998) the polarization of the Slovenian regions have become quite obvious: on the one hand there is a group of three economically more developed and two medium developed regions whose relative position has improved, on the other hand there is a group of three less developed and four medium developed regions whose relative position has worsened.

If we compare the two groupings of the Slovenian regions – one made at the beginning of the transition period and the other after a seven-year period – we can conclude the following:

- The three more developed regions (Central, Coastal and Gorenjska region) have remained more developed and their relative position has further improved; the relative position of the fourth (Goriška) region has remained more or less the same;

- Dolenjska region which was a medium developed region in 1990 has well used its development potentials and has joined the group of economically more developed regions
- Savinjska region which was labelled as a medium developed region with a prospective economic structure and mostly positively evaluated development potentials and was in the same group as Goriška and Dolenjska region in 1990 did much worse during the transition period: its steel works and heavy equipment production as well as some other manufacturing branches (e.g. textiles, furniture) went bankrupt and the rate of unemployment nearly tripled in just six years; together with Podravska, Zasavska and Posavska region and the three less developed (Koroška, Karst and Pomurska) it forms the group of regions whose relative position has worsened or remained the same (Karst) in the period 1991-1997.
- The two less developed regions whose economic structure was estimated as a prospective one (Pomurska, Karst) were obviously hit by the restructuring problems a few years later than more developed regions and have heavy structural problems in the last years.
- In short the relative position of all economically more developed regions has improved and of all economically less developed regions has worsened; as regards the economically medium developed regions, the relative position of two has improved and of three has worsened. The disparities between the more and less developed regions have increased during the transition period.
- The experience of Slovenia shows the same tendency as that of the other countries and it confirms the theoretical backgrounds: the market forces by themselves increase rather than decrease regional disparities.

## **2.3 Effects of EU enlargement on industry and services in the border regions**

### **2.3.1 Effects on trade and manufacturing**

The structure of Austria's industrial sector has changed since the opening of the eastern markets. Export-oriented branches experienced trade expansion with the CEECs while others were facing increased competition from these countries. Altogether, Austrian industry has been benefiting from the trade expansion with the central and east European countries. Eastern Austria (including Styria) was among the main beneficiaries due to its sectoral structure. In Styria, especially electrical engineering, transport equipment and paper industries were favoured most by export opportunities, while at the same time the competitive pressure was low. In contrast to the province as a whole, the Styrian border regions were less favoured from the widening of exports to the CEECs. Industry in Carinthia benefited little, showing low export dynamism and suffering heavy competition from imports due to its structural problems. Increased competition had negative effects

mostly on old industrial regions and resource-oriented low density zones making up for the bulk of Carinthia's industry (Maier 1998).

Calculations on Austria's future trade with the CEECs are based on past experience, as most of the trade in goods (except agriculture) has been liberalized already in the course of the Association Agreements between the EU and the CEECs. Thus no major changes are to be expected after Slovenia's joining the EU. For the future trade performance, two basic variants were calculated by means of simulations with a gravity model (Egger, 1998) one that derives further export potential solely from the trade-creation effects of rising GDP in the CEECs ('growth effects only') and one that includes additional structural effects, according to the degree they converge to the bilateral EU trade structure ('growth effects + structural effects'). According to the model, the exports to Slovenia may even decline.

As for the future, Austrian industry will continue to benefit from the catching-up process in the CEECs, and these benefits will increase with the pace of the process. Using realistic assumptions, the increase in production of Austrian industry will be even more dynamic after the CEECs have joined the EU than in the first years after the opening of the east. If the CEECs were to adjust their foreign trade structure to the EU average by 2010, the net output of Austrian manufacturing would grow from 1996 to 2004 by between 1.7% p.a. (no import substitution) and 0.1% p.a. (full import substitution). Complete import substitution is however unlikely, since intra-industrial division of labour based on product differentiation will dominate in the extended single market. It will be mainly the vertical division of labour within the supplier networks which will spread, although horizontal product differentiation will gain in importance as well.

In spite of the favourable overall picture on the future developments, there will be some winners and losers at regional and sectoral level or imbalances in some sectors of the market or regions (e.g. border regions). Looking at individual Austrian provinces it was assumed that states of above average productivity in manufacturing will have an advantage in future exports to the CEECs. Thus, Vorarlberg, Tyrol, Vienna, Lower Austria, Upper Austria and Styria can expect the highest increase of industrial output after the CEECs become EU-members. In Styria, apart from the technological sector and metal industry, paper industry will benefit most from the CEECs increasing demand. In smaller provinces with less clearly defined core regions such as Burgenland and Carinthia - opportunities are fewer and output growth will be lower (Palme, 1998).

Studies analysing the impact of the opening of the eastern markets for individual Austrian regions on the industrial sector (Gassler and Rammer, 1995, Wendner, 1994) show some similarities and differences across the Styrian border areas (Barwinek/Kirisits, 1998):

- Both studies came to the conclusion, that the districts of Radkersburg, Feldbach and Hartberg are in a weak position as their industrial sector is dominated by labour cost

sensitive branches; consequently there is an ..threat of enhanced migration. Leibnitz is a threatened district as well due to its sectoral structure (increasing competition from imports), but also due to a negative balance of employment.

- Deutschlandsberg's position is relatively favourable with a small share of cost intensive branches and a low intensity of foreign trade.
- In the cases of Weiz and Fürstenfeld the authors came to different conclusions. According to Gassler/Rammer both Weiz and Fürstenfeld display a negative employment balance, while Wendner classifies Weiz as a "protected district" with low foreign trade intensity (and therefore not 'threatened') and Fürstenfeld with strongly export-oriented, but not wage sensitive branches.

### **2.3.2 Changes in the trade in services regime**

Since 1993 Austria's balance of services vis-à-vis Slovenia shows a permanent surplus. While Austrian services providers were able to improve their position on the Slovenian market through substantial direct investment, providers from Slovenia still lack the competitiveness and financial power to apply similar strategies in Austria. Unlike in the case of goods trade, one cannot draw conclusions from past experience in order to assess the future prospects of the services sector. In goods trade, far-reaching liberalization had been achieved through the Association Agreements, while so far there has been no liberalization of the services sector.

Many Austrian providers of services will be confronted with significant changes in the competitive regime after an eastern enlargement of the EU. Generally, labour cost advantages in Slovenia will affect those Austrian companies that combine low wages (low human capital orientation) with a high wage tangent (labour costs account for a large share of total costs) (Mayerhofer, 1998).

Looking in greater detail at some branches, advantages for Slovenian producers can be expected especially in two modes of providing services following the change of the integration regime after joining the EU:

- in retailing, the restrictive provisions governing the import of goods by consumers will be eliminated with the enlargement. Together with significant cuts in the (time) cost of border crossing by the abolition of border controls, this implies a stronger incentive for direct imports of goods in line with the substantial price level differences between the adjacent territories.
- in service sectors such as traders, crafts, and construction the application of the rules of the single market (mutual recognition, no visa, freedom of establishment) will greatly

facilitate cross-border delivery by a move of the producer. A virtually closed system will be replaced by a liberal regime here.

Both changes will enhance the cross-border trade of essentially labour-cost-intensive services. Given the comparative advantages involved, one can expect sales potentials of Slovenian producers to increase considerably by these changes. On the other hand, Austrian producers in labour-cost-intensive segments will need to boost their competitiveness by quality and niche strategies. However, this competitive threat will be restricted mostly to a geographically limited zone along the border. Currently about one quarter of Styrian trade employees is concentrated in the border regions. Based on the past experience cross border trade by Slovenes in Styrian border districts is expected to be low also in the future. Nevertheless, shopping tourism between Slovenia and Styria has become more selective over recent years; in this context there has also been a shift of Slovenian purchasing power to the region of Graz with its higher-quality and more specialized supply (Amt der Stmk. Landesregierung, quoted in Barwinek and Kirisits). Apart from (retail and wholesale) trade, services segments most likely under competitive pressure in Styria include car trade, trade intermediation, hotels and restaurants, and transport (Joanneum Research, 1999).

If looking at the location component there seems to be specific threat for the services sector in the Styrian border regions, as all indicators show an unfavourable situation: according to a regional comparison for Austria the small and business services sectors on the south eastern border of Austria are characterized by below-average productivity, a high wage tangent combined with low wage and investments rates (Mayerhofer, 1998). For the province as a whole, Slovenia's accession to the EU can be expected to have no significant impact for the small and handicraft businesses in *Styria* (IfG, 1998). Because of the higher competitive potential and the higher wage differences, the impact of an EU accession of Hungary might exert more pressure than that of Slovenia.

An assessment on the impact of the opening of eastern markets on the services sector in individual Austrian provinces is possible to a limited extent only. In general, high-density regions and immediately bordering suburban regions with their great supply of wholesale, business and financial services have benefited. An analysis of the structure of the services sector in Styria shows relatively strong segments, such as education, telecommunication, trade inter-mediation and automobile trade and maintenance, while credit and insurance services, business services and data processing are relatively weak. As the position of the high-density region Graz and its suburban regions is not too strong, the growth impetus emerging after the opening of the East has been modest. These weaknesses might be partly due to the small units of firms but also due to legal obstacles (Joanneum Research, 1999).

Overall, the new trade regime in services will strengthen service trade between Austria and Slovenia along comparative advantages in the short run. Quantitative and qualitative deficits in complex financial and business services in Slovenia, combined with growing demand for these services in the catching-up process, will open further potentials for expansion to Austrian providers. On the other hand, new players from Slovenia will expand in Austrian markets where competition based on price and existing factor cost advantages can be exploited. Defensive measures in the services sector (transitory periods, safeguarding clauses etc.) are meaningful/useful only in cases where merely taking over the Union's legislation (acquis) would lead to unacceptable competitive distortions and major adjustment problems (cross border provision of services). Any further protectionist regulations measures would delay the expected structural changes in the services sector, but certainly not prevent them in the long term (Barwinek/Kirisits, 1998). An assessment of the impact of the deepening integration between the border regions Austria–Slovenia requires also to take into account the different developments in the neighbouring regions by calculating differences in real incomes, wages and prices (Landesmann and Vidovic 1999). As can be seen, liberalization will concern Austria considerably. The country will thus have to take the lead to develop and adopt useful strategies to prepare for the change.

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# ANNEX A

Table A/1

## Austrian current account balance with Slovenia, 1993-1996, ATS million

	1993			1994			1995			1996		
	Eingänge	Ausgänge	Saldo									
2110 <b>1. Warenhandel</b>	6811	3378	3433	7999	4059	3940	9816	5261	4555	9865	5943	3922
<b>Kommerzielle Dienstleistungen</b>	837	2051	-1214	1182	3166	-1984	1745	2519	-774	2079	2097	-18
2350 Reiseverkehr	252	1646	-1394	390	2589	-2199	779	2117	-1338	1194	1637	-443
2340 Transport	251		251	391		391	438		438	450		450
Sonstige Dienstleistungen, Regierung	334	405	-71	401	577	-176	528	402	126	435	460	-25
2330 Bau-, Montage- und Reparaturkosten	11	85	-74	84	145	-61	27	41	-14	26	30	-4
2360 Versicherungen	90	30	60	59	52	7	56	44	12	72	45	27
2370 Diplomatische und konsul. Vertretungen	3	8	-5	14	7	7	19	18	1	18	10	8
2380 Bank- und ähnl. fin. DL	17	34	-17	19	21	-2	28	15	13	20	18	2
2390 Provisionen, Spesen	26	102	-76	26	112	-86	31	110	-79	24	120	-96
2410 Regiekosten verbund. Unternehmen	5	9	-4	17	28	-11	25	28	-3	1	26	-25
2420 Lohnveredelung	29	24	5	11	43	-32	76	-21	97	64	4	60
2430 Kultur und Unterhaltung	0	0	0	2	1	1	1	1	0	0	0	0
2440 Leasing, Mietgebühren	111	11	100	116	7	109	189	5	184	117	15	102
2450 Informationsübertragung	0	0	0	0	0	0	7	7	0	2	23	-21
2460 Techn., wissenschaftl., wirtschaftl. Beratung	28	47	-19	34	107	-73	52	92	-40	61	111	-50
2470 Werbekosten	3	25	-22	9	41	-32	11	34	-23	15	34	-19
2590 Sonstige DL	11	30	-19	10	13	-3	6	28	-22	15	24	-9
2120 Adjustierungen	-187	-111	-76	-187	-217	30	-223	-98	-125	-231	-152	-79
2310 Transithandel	1531		1531	2919		2919	2579		2579	2953		2953
2230plus2240 Faktoreinkommen <sup>1)</sup>	20	43	-23	43	40	3	38	39	-1	22	31	-9
<b>2. Dienstleistungen ohne Kapitalerträge</b>	2201	1983	218	3957	2989	968	4139	2460	1679	4823	1976	2847
Kapitalerträge	63	320	-257	172	279	-107	303	311	-8	402	222	180
2210 Aus Direktinvestitionen	6	1	5	2	2	0	11	4	7	14	2	12
2220 Sonstige Investitionseinkommen	57	319	-262	170	277	-107	292	307	-15	388	220	168
<b>3. Dienstleistungen insgesamt</b>	2264	2303	-39	4129	3268	861	4442	2771	1671	5225	2198	3027
2900 <b>4. Nicht aufteilbare Leistungen</b>	607	232	375	745	313	432	533	225	308	646	268	378
3000 <b>5. Transfers</b>	125	313	-188	139	194	-55	109	152	-43	108	188	-80
<b>Leistungsbilanz</b>	9807	6226	3581	13012	7834	5178	14900	8409	6491	15844	8597	7247
Außenhandel im weiteren Sinne 2)	8255	5661	2594	9926	7538	2388	12094	8005	4089	12590	8308	4282

1) Arbeitsatgelte, Patente, Lizenzen. - 2) Warenhandel, NAL und kommerzielle DL. -- Quelle: OENB Zahlungsbilanz Österreichs 1993, 1994, 1995, 1996, 1997.

Table A/2

**Share of exports to Slovenia by commodity groups  
in Austrian exports to Slovenia, in %**

Year	Total	Food & live animals	Crude materials, inedible, exc. fuel	Mineral fuels, lubricants, etc.	Chemicals & related prod.	Manufact. goods class. by mater.	Machinery & transp. equip.	Miscellaneous manufact. art.	Agricult. prod., crude & fuels	Crude materials, mineral fuels	Manufacturing goods
	(SITC-cl.)	(0)	(2)	(3)	(5)	(6)	(7)	(8)	(0,1,4)	(2,3)	(5 bis 9)
1992	100.0	9.0	10.5	5.3	15.2	24.6	25.8	6.9	11.7	15.8	72.6
1993	100.0	7.6	9.5	4.6	15.0	23.9	26.9	9.3	11.0	14.1	74.9
1994	100.0	11.8	8.3	4.8	14.5	25.5	23.0	8.7	15.1	13.2	71.7
1995	100.0	6.0	9.2	3.2	14.6	26.4	28.4	9.1	9.2	12.3	78.5
1996	100.0	7.3	7.5	3.0	14.2	26.4	29.6	9.2	10.0	10.5	79.5
1997	100.0	7.4	6.6	2.4	15.8	27.5	27.5	10.4	9.7	9.1	81.3
1998	100.0	7.1	5.8	1.5	15.2	30.8	27.3	10.2	9.3	7.2	83.5

**Exports to Slovenia by commodity groups  
share in total Austrian exports, in %**

Year	Total	Food & live animals	Crude materials, inedible, exc. fuel	Mineral fuels, lubricants, etc.	Chemicals & related prod.	Manufact. goods class. by mater.	Machinery & transp. equip.	Miscellaneous manufact. art.	Agricult. prod., crude & fuels	Crude materials, mineral fuels	Manufacturing goods
	(SITC-cl.)	(0)	(2)	(3)	(5)	(6)	(7)	(8)	(0,1,4)	(2,3)	(5 bis 9)
1992	1.2	3.9	3.0	5.8	2.0	1.0	0.8	0.6	4.1	3.6	0.9
1993	1.5	3.9	3.5	6.0	2.4	1.2	1.0	0.9	4.6	4.1	1.2
1994	1.6	6.3	3.0	5.8	2.5	1.4	0.9	1.0	6.4	3.7	1.2
1995	1.7	3.1	3.7	5.3	2.7	1.5	1.2	1.2	3.8	4.0	1.5
1996	1.6	3.1	3.3	3.9	2.5	1.6	1.2	1.1	3.6	3.5	1.4
1997	1.8	3.5	3.3	3.7	2.9	1.9	1.2	1.4	3.8	3.4	1.6
1998	1.7	3.2	2.9	2.8	2.7	1.9	1.1	1.2	3.4	2.8	1.5

Source: WIFO database.

Table A/3

**Share of imports from Slovenia by commodity groups  
in Austrian imports from Slovenia, in %**

Year	Total	Food & live animals	Crude materials, inedible, exc. fuel	Mineral fuels, lubricants, etc.	Chemicals & related prod.	Manufact. goods class. by mater.	Machinery & transp. equip.	Miscellaneous manufact. art.	Agricult. prod., crude & fuels	Crude materials, mineral fuels	Manufacturing goods
	(SITC-cl.)	(0)	(2)	(3)	(5)	(6)	(7)	(8)	(0,1,4)	(2,3)	(5 bis 9)
1992	100.0	4.8	7.8	0.5	4.9	38.7	21.7	21.4	4.9	8.3	86.8
1993	100.0	3.5	5.0	0.2	6.5	36.0	23.0	25.7	3.6	5.2	91.2
1994	100.0	2.9	3.6	0.0	6.8	36.6	27.1	22.9	3.0	3.6	93.4
1995	100.0	1.5	3.2	0.8	6.3	40.5	27.3	20.3	1.6	4.0	94.3
1996	100.0	1.2	2.5	1.9	9.0	36.9	29.7	18.7	1.4	4.4	94.2
1997	100.0	1.2	2.9	1.4	10.1	32.3	32.2	19.7	1.5	4.3	94.3
1998	100.0	1.2	3.2	0.9	8.7	30.7	33.4	21.3	1.7	4.1	94.2

**Imports from Slovenia by commodity groups  
share in total Austrian imports, in %**

Year	Total	Food & live animals	Crude materials, inedible, exc. fuel	Mineral fuels, lubricants, etc.	Chemicals & related prod.	Manufact. goods class. by mater.	Machinery & transp. equip.	Miscellaneous manufact. art.	Agricult. prod., crude & fuels	Crude materials, mineral fuels	Manufacturing goods
	(SITC-cl.)	(0)	(2)	(3)	(5)	(6)	(7)	(8)	(0,1,4)	(2,3)	(5 bis 9)
1992	0.5	0.5	0.9	0.0	0.3	1.1	0.3	0.6	0.5	0.5	0.5
1993	0.6	0.4	0.8	0.0	0.4	1.2	0.4	0.8	0.4	0.3	0.6
1994	0.6	0.4	0.5	0.0	0.4	1.2	0.5	0.8	0.4	0.3	0.7
1995	0.8	0.2	0.5	0.1	0.5	1.6	0.6	0.9	0.2	0.4	0.9
1996	0.8	0.2	0.6	0.3	0.7	1.7	0.7	0.9	0.2	0.4	0.9
1997	0.9	0.2	0.6	0.2	0.8	1.5	0.7	1.0	0.2	0.4	1.0
1998	0.9	0.2	0.7	0.2	0.7	1.5	0.7	1.1	0.2	0.5	1.0

Source: WIFO database.

Table A/4

**Austrian trade balance with Slovenia by commodity groups**

ATS mn

Year	Total	Food & live animals	Crude materials, inedible, exc. fuel	Mineral fuels, lubricants, etc.	Chemicals & related prod.	Manufact. goods class. by mater.	Machinery & transp. equip.	Miscellaneous manufact. art.	Agricult. prod., crude & fuels	Crude materials, mineral fuels	Manufacturing goods
	(SITC-cl.)	(0)	(2)	(3)	(5)	(6)	(7)	(8)	(0,1,4)	(2,3)	(5 bis 9)
1992	2645.6	362.8	359.4	283.0	709.4	227.3	806.9	-250.5	510.6	642.4	1492.7
1993	3434.0	403.0	478.5	306.7	800.3	411.2	1050.9	-237.7	624.2	785.2	2024.7
1994	3940.9	829.8	521.1	386.1	886.4	552.2	737.6	-229.2	1086.5	907.2	1947.2
1995	4553.7	513.9	731.0	266.1	1101.0	465.3	1348.6	-171.8	813.9	997.1	2742.8
1996	3921.1	646.9	591.4	182.4	870.6	414.0	1157.2	-201.0	904.3	773.8	2243.0
1997	6148.4	877.6	659.5	218.5	1362.7	1362.9	1373.7	17.3	1151.7	878.0	4118.7
1998	5471.7	836.1	505.9	122.3	1314.3	1686.6	1031.1	-270.9	1079.9	628.2	3763.6

Source: WIFO database.

Table A/5

### Basic socio-economic indicators for Slovenian statistical regions

Region	Structure of active population in %		Net revenue from export as a share of total revenue in %	Average gross wage per employee	Net inward migration per 1000 population		Percentage of registered workers abroad		Population above 15 with the third level education		Share of students in the whole generation		Telephones per 1000 population*
	1991	1991			1994	1997	1994	1997	1990-94	1991	1991	1996	1995
	I	II	III	IV									
Central region	5.9	41.0	22.3	30.1	123.0	66.8	112.1	109.3	+2.1	1.9	13.4	38.8	111.7
Coastal region	7.3	33.3	32.3	26.8	188.1	96.6	105.8	107.0	+1.6	2.4	10.7	34.8	124.7
Gorenjska	7.0	56.6	18.0	17.8	232.6	130.7	86.8	93.8	+0.8	2.1	8.6	35.4	104.8
Goriška	13.3	50.2	16.8	19.1	214.8	125.2	105.6	107.0	-3.6	2.1	8.5	27.6	93.9
Savinjska	15.6	50.5	16.6	16.9	185.9	110.1	94.9	93.0	-1.4	2.9	6.8	30.5	90.0
Dolenjska	20.2	49.8	13.8	16.0	368.9	234.4	88.2	105.4	+1.4	2.3	6.5	30.9	101.6
Pomurska	37.0	38.6	10.9	13.3	145.9	86.1	91.4	87.6	-0.6	7.7	5.1	23.4	80.0
Karst	15.6	44.5	22.1	17.6	260.0	171.0	86.8	92.2	+2.5	1.7	7.2	32.2	102.7
Podravska	16.8	43.5	17.3	21.9	151.1	89.1	89.4	91.4	-0.2	5.0	7.9	30.3	92.8
Koroška	13.8	43.8	13.2	29.1	252.6	184.5	113.8	87.6	-6.0	2.3	6.6	31.4	92.9
Posavska	24.2	45.3	15.4	14.6	199.3	110.1	79.7	86.0	+0.2	4.9	5.5	28.0	93.6
Zasavska	4.8	64.6	13.4	16.9	131.9	76.5	81.4	96.9	-9.5	2.1	6.2	35.2	76.6
<i>Slovenia</i>	<i>13.7</i>	<i>45.6</i>	<i>18.4</i>	<i>21.9</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>-</i>	<i>3.1</i>	<i>9.0</i>	<i>33.1</i>	<i>100.0</i>

Notes: \* Not the official data (estimation by Drago Kladnik).

### **3. Migration and labour market issues**

#### **3.1 Migration potential**

This section takes a closer look at migration as an important aspect of more general labour market issues. The analysis is a first and so far preliminary attempt to identify potential adjustment needs. In order to be able to assess the potential impact of Slovenia's entry into the EU upon Austria's labour market we start out with a short review of research results into this subject. One of the most widely used methods of estimation of the migration potential is a survey amongst households/individuals in the country/region of outmigration. A survey gives a first insight into the migration potential even though one has to be aware of the fact that there is a margin of error linked with any quantification as a result of the uncertainty linked to the extent of unexpected stayers and unexpected movers and the timing and spacing of an envisaged move.

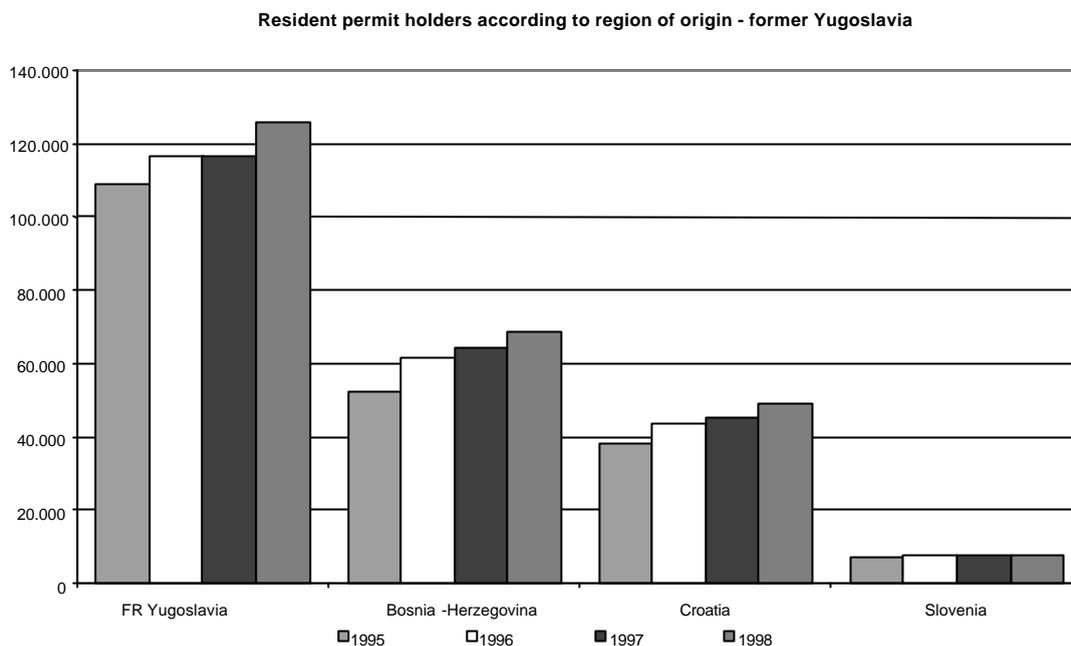
Comprehensive surveys of the migration potential in Slovenia are hard to come by. A survey of researchers and their intentions to migrate sponsored by the European Commission (COST A2 project: Europe's Integration and the Labour Force Brain Drain, Bevc, 1998), gives an indication of the potential brain drain from Slovenia. Actual outmigration of researchers with masters degrees and doctorates amounted to about 0.5% of the population of this skill segment per year in the course of 1988-94. The emigration of that group could have been even higher in the second half of the nineties, since their potential emigration in the mid-1990s was high. Surveys carried out by the Paul Lazarsfeld Society in CEECs between 1991 and 1998 (Wallace, 1999) show that it is above all the better skilled young men from urban areas, who intend to migrate and not the poor (women, elderly) and unemployed (un- and semiskilled workers).

Currently, some 7700 Slovenes are living in Austria, i.e. are registered in the alien register of the Ministry of Domestic Affairs. This constitutes 0.1% of the Austrian population and 0.4% of the Slovenian. These numbers represent the lower bound of the number of Slovenes residing in Austria since the alien register captures only those foreigners who need a residence permit.

There is no comprehensive information about the number and structure of Slovenes in the Austrian population, since Slovenia was part of former Yugoslavia at the time of the last census. The number of Slovenes in the Austrian population has been relatively stable

Figure 3

### Foreign population from the territory of former Yugoslavia (Alien Register)



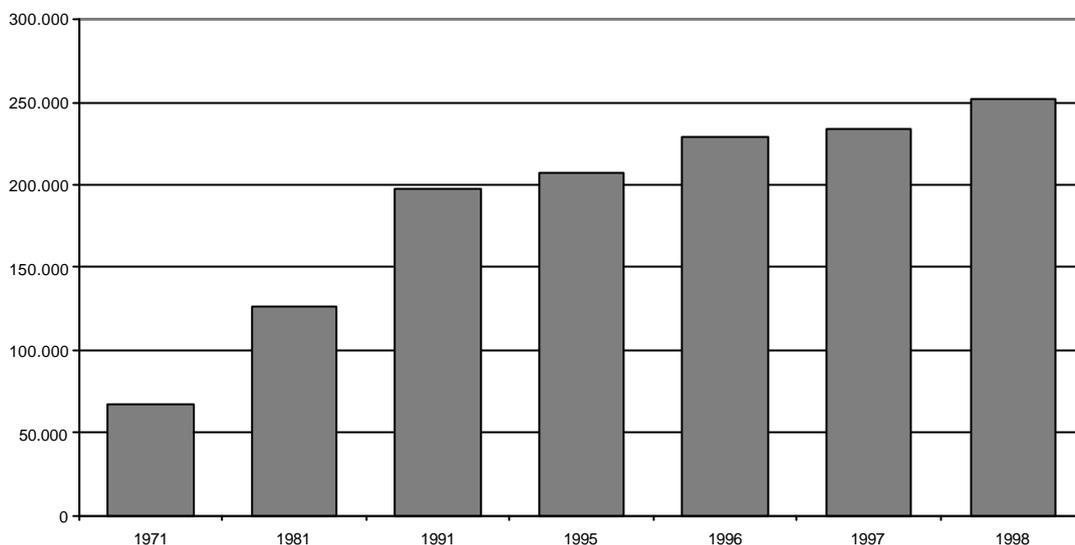
since 1995. Their share in the population of from the territory of former Yugoslavia in Austria has also remained rather stable since 1995. In 1998 251.700 foreigners from the territory of former Yugoslavia were registered at the alien register of the Ministry of Domestic Affairs. Slovenes made up 3.1% of that number, Croatians 19.5% (49,000), Bosnians 27.4% (68,900) and the remaining number were descendants from the Federal Republic of Yugoslavia (50% or 126,100).

According to Census data the number of persons from the territory of former Yugoslavia living in Austria almost tripled between 1971 and 1991 (1971: 67,700; 1991: 197,900; +130,200). In the course of the 1990s the inflow of people from the territory of former Yugoslavia gained momentum as a result of political destabilization and war. The number of Slovenes living in Austria can be expected to have had a rather more stable development over time, given their early political independence and successful economic transformation.

If one takes the alien register as an indicator of the annual population growth of Slovenes in Austria in the 1990s no significant upswing in annual inflows can be discerned. Between 1995 and 1998 (mid-year), the number of Slovenes rose from 7.100 to 7.700, i.e. by 200 annually on average. These numbers are a lot smaller than the annual expected inflows in case of free labour movement.

Figure 4

**Resident population from former Yugoslavia in Austria, 1971-1998  
(Census, Alien Register)**



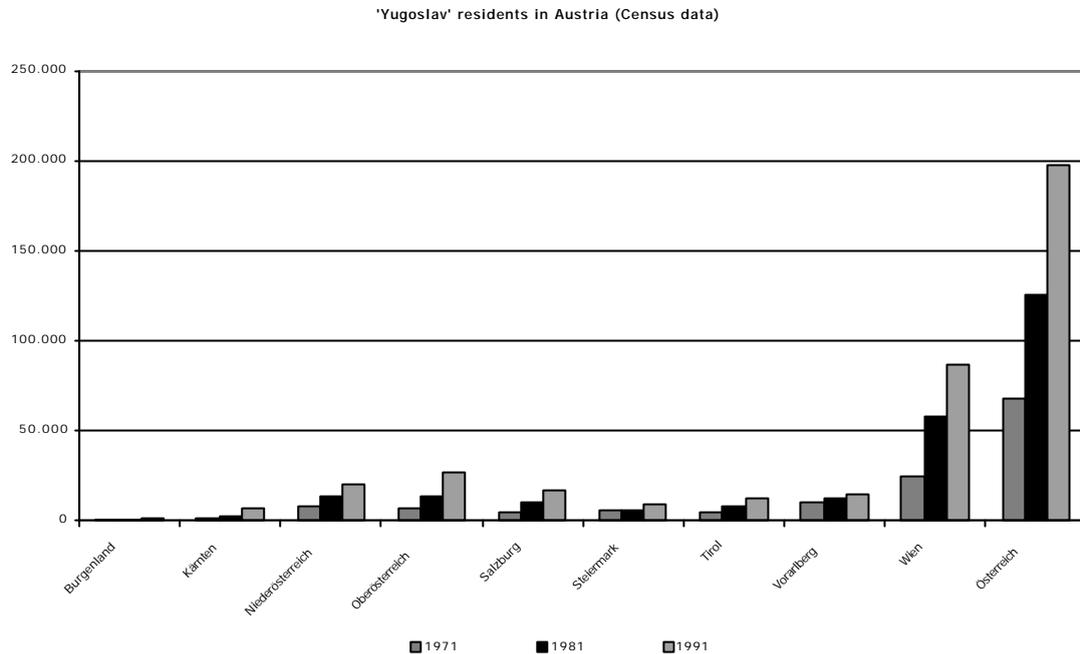
The persons from the territory of former Yugoslavia tend to be concentrated in the city of Vienna. There are also some concentrations in Upper Austria, Lower Austria and Salzburg but no significant concentrations in the border regions. The regional distribution of Slovenes seems to be quite different – as the work permits for foreign workers from Slovenia suggest.

The Slovenes tend to work in the regions bordering Austria, in particular the more dynamic economic region, i.e. Styria, where Graz acts as an attractor for labour from neighbouring Slovenia, in particular Maribor. But also Carinthia employs a fair share of Slovenes. Of the total of 9700 work permits for persons of third country origin in Carinthia in 1997 some 13% went to Slovenes, while the national average of Slovenes in total work permits comes up to 2.4% only.

A survey undertaken by ICMPD in 1998/ 99 (Demel and Bender, 1999) supports the Slovenian survey results in stating that migrants are above all young and highly skilled persons. Some 46% of people surveyed were younger than 40 years of age, and some 17% younger than 30. The share of Slovenes interviewed for the ICMPD study with medium and upper secondary education was particularly high (about two thirds), followed

Figure 5

### Regional distribution of the population of former Yugoslavia in Austria (Census data)

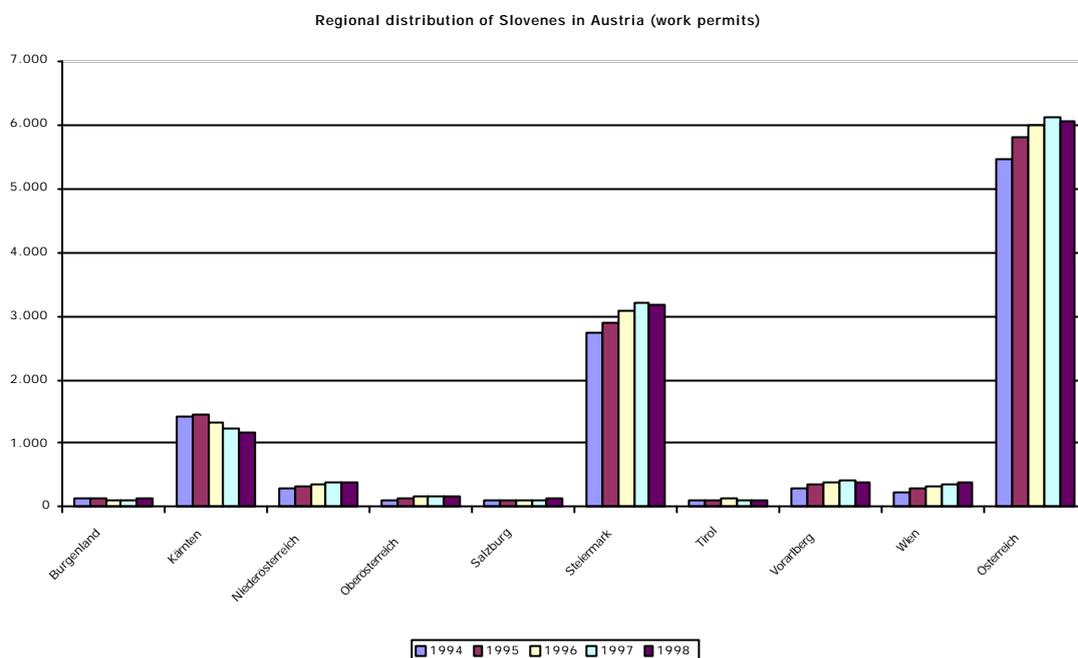


by university graduates (some 20%). As to occupations, interviewees trained in production related occupations (including construction) dominated, followed by technical occupations and such in health and education. In many cases, interviewees have been trained in such branches of occupation for which there exists a demand for foreign workers in Austria, such as in construction, retail, restaurants and hotels and in specific sectors of production of consumer goods. In addition, production of traditional consumer goods and specific health services belong to that group of occupations, for which skills in the medium segment are relatively easily transferable at an international level. Therefore, a majority of people surveyed managed to find work matching their qualification. Only 28% stated that they work under the condition of dequalification.

The majority of the Slovenes residing in Austria are in the labour force. Of the total population of Slovenes registered at the alien register in 1998 (7700), 6100 or 78% had a work permit. This is typical for migration processes which emanate from demand pull factors, i.e. the job prospects in Austria are the main driving force for migration to Austria, not environmental, political or other push factors, which tend to result in the migration of a representative demographic sample of the total population. In the case of Slovenes it is

Figure 6

### Regional distribution of Slovenian workers in Austria (work permit holders, Ministry of Labour)



above all men of working age, who reside and work in Austria. The Slovenes make up less than 1% of all workers in Styria and Carinthia. The relatively weak economic performance of the Austrian regions bordering Slovenia exert limited pull-forces for migration. Since the economic growth prospects of these regions are not very encouraging, no major upswing of migration from Slovenia can be expected in the case of free labour movement.

There may be a certain upswing immediately after the introduction of free labour movement, due to a certain backlog of migration, which may have built up as a result of legal barriers to crossborder migration. That increased inflow can be expected to be transitory, however, given the limited economic dynamism of the Austrian regions bordering Slovenia.

### 3.2 Carinthia and Burgenland: a tentative comparison of the integration effects of two border regions

Carinthia, with a level of GDP per capita below the Austrian average, developed also below average between 1988 and 1998 (the year 1989 was the only positive exception). It is considered a problem region with high unemployment. As opposed to the other regions of eastern and southeastern Austria, Carinthia was not able to make use of the opening of the borders for a new positioning.

In contrast, Burgenland, also with a GDP per capita significantly below the Austrian average, developed very dynamically, especially over the period 1988 to 1993: GDP grew by 1.9 percentage points and employment by 1.1 percentage points faster than in Austria as a whole. Productivity increased strongly. In the following five-year period (Austria's EU accession meant that Burgenland obtained the status of target-1-region for maximum regional support and with strong restriction on immigration), the economy grew in line with the Austrian average, but employment by 0.9 percentage points faster; the productivity gain was lost. Over the entire period 1988 to 1998 the GDP per employed increased by 10% above the average value.

In 1998 the two regions showed characteristic differences in their structure of foreign labour.

Carinthia's structure of foreign labour corresponds to the expectations of a low-dynamic region. The employment rate of foreigners is slightly more than half the Austrian average. Only forestry and wood processing (with a high structural share in Carinthia) reach the Austrian average, and mainly branches with above-average foreign employment shares in Austria and lower skill requirements have rates higher than the (Carinthian) average. The location coefficients (ratio of Carinthian to Austrian foreign labour shares) tend to fall with rising skill requirements, i.e. foreigners are more strongly concentrated in traditional branches.

Quite different is the structure in Burgenland: In spite of being a border region, the rate of foreigners is about average. However, in 1988 it was the region (*Bundesland*) with the lowest rate among all federal counties, only about a quarter of the Austrian average.

Table 16

**Austria: Growth of production and employment, 1988 to 1998**

	GDP real	Employees	GDP real	Employees	GDP real	Employees
	1988/1993		1993/1998		1988/1998	
	Average annual change in %					
Vienna	+3,3	+1,2	+1,6	- 0,6	+2,4	+0,3
Lower Austria	+3,7	+2,4	+3,6	+0,7	+3,6	+1,5
Burgenland	+5,1	+2,8	+2,5	+1,0	+3,8	+1,9
Styria	+2,8	+1,3	+3,9	+0,5	+3,3	+0,9
Carinthia	+3,4	+1,4	+2,5	- 0,0	+2,9	+0,7
Upper Austria	+2,4	+1,7	+2,8	+0,3	+2,6	+1,0
Salzburg	+3,4	+2,1	+1,7	- 0,1	+2,5	+1,0
Tyrol	+3,4	+2,1	+1,5	+0,2	+2,5	+1,2
Vorarlberg	+3,0	+1,6	+2,2	+0,1	+2,6	+0,9
Austria	+3,2	+1,7	+2,5	+0,1	+2,8	+0,9

Table 17

### Share of foreign labour by sector in Carinthia relative to Austria as a whole, 1998

	Anteil in Österreich in %	viel größer	größer	etwa gleich	kleiner	viel kleiner	Anteil in Kärnten in %
Beherbergungs- und Gaststättenw.	26,5				0,67		17,8
Rückgewinnung (Recycling)	25,9					0,00	0,0
Bekleidung, Textilien, Leder	24,5				0,85		20,8
Realitätenwesen	22,7					0,09	2,1
Land- und Forstwirtschaft	21,1			0,99			21,0
Herst.v.Gummi- und Kunststoffw.	19,1				0,60		11,5
Bauwesen	17,8				0,62		11,0
Herst. von Metallerz.	15,6				0,64		10,1
Erbringung von unternehmensbez. DL	15,2					0,45	6,8
Private Haushalte	15,0				0,70		10,5
Abwasser-u.Abfallbes.Entsorg.	14,6			1,07			15,6
Nahrungs- und Genußmittel	14,3				0,53		7,6
Erbr.v.sonst.Dienstleistungen	14,2					0,32	4,6
Forschung und Entwicklung	12,5				0,75		9,4
Be- und Verarb. von Holz(o.Möbel)	12,0			0,98			11,8
Glas,Waren aus Steinen u.Erden	11,9				0,66		7,9
Herst.v.Kraftwagen und -teilen	10,3				0,64		6,6
Kultur,Sport und Unterhaltung	10,2				0,71		7,3
Herst.v.Möbeln,Schmuck,Musikinstr	10,0				0,78		7,7
Insgesamt ohne KUG	9,9				0,58		5,7
Verkehr	9,4					0,30	2,8
Datenverarbeitung und Datenbanken	9,3					0,38	3,6
Kfzhandel, Instandh.u.Rep.v.Kfz	8,6				0,68		5,8
Handelsvermittlung u. Großhandel	8,5				0,57		4,8
Maschinenbau	8,5				0,76		6,5
Metallerzeugung und -bearbeitung	8,3		1,51				12,5
Elektrogeräte, Rundfunk, Fernsehen	8,3					0,41	3,4
Einzelhandel (ohne Kfz)	8,1					0,47	3,8
Papier u. Pappe	7,9					0,34	2,7
Herst.v.Chemikal. und Ch.Erz.	7,9					0,19	1,5
Gesundh.-,Veterinär-u.Sozialwesen	7,1					0,44	3,1
Verlagsw.,Druck.,Vervielfält.	6,6				0,54		3,6
Mit Kredit-u.Vers.wesen verb.Tät.	6,0					0,28	1,7
Bergbau	4,9					0,22	1,1
Sonstiger Fahrzeugbau	3,9				0,71		2,8
Exterit. Organisationen	3,0					0,25	0,7
Unterrichtswesen	2,2					0,49	1,1
Kredit, Versicherung	1,6					0,39	0,6
Kokerei, Mineralölverarbeitung	1,6					0,00	0,0
Nachrichtenübermittlung	0,7					0,10	0,1
Energieversorgung	0,5				0,51		0,3

Quelle: Hauptverband der österreichischen Sozialversicherung; WIFO, eigene Berechnungen.

Table 18

**Share of foreign labour by sector in Burgenland relative to Austria as a whole, 1999**

	Anteil in Österreich in %	viel größer	größer	etwa gleich	kleiner	viel kleiner	Anteil im Bgl in %
Beherbergungs- und Gaststättenw.	26,5			1,06			28,1
Rückgewinnung (Recycling)	25,9					0,00	0,0
Bekleidung, Textilien, Leder	24,5				0,52		12,6
Realitätenwesen	22,7					0,31	7,1
Land- und Forstwirtschaft	21,1	1,96					41,4
Herst.v.Gummi- und Kunststoffw.	19,1				0,78		14,8
Bauwesen	17,8			0,99			17,6
Herst. von Metallerg.	15,6		1,16				18,2
Erbringung von unternehmensbez. DL	15,2					0,43	6,6
Private Haushalte	15,0			0,97			14,6
Abwasser-u.Abfallbes.Entsorg.	14,6					0,30	4,4
Nahrungs- und Genußmittel	14,3			0,98			14,0
Erbr.v.sonst.Dienstleistungen	14,2					0,38	5,4
Forschung und Entwicklung	12,5				0,67		8,3
Be- und Verarb. von Holz(o.Möbel)	12,0		1,11				13,4
Glas,Waren aus Steinen u.Erden	11,9	1,99					23,7
Herst.v.Kraftwagen und -teilen	10,3	5,92					61,1
Kultur,Sport und Unterhaltung	10,2			1,00			10,2
Herst.v.Möbeln,Schmuck,Musikinstr	10,0				0,71		7,1
Insgesamt ohne KUG	9,9			0,96			9,5
Verkehr	9,4	2,17					20,5
Datenverarbeitung und Datenbanken	9,3				0,70		6,6
Kfzhandel, Instandh.u.Rep.v.Kfz	8,6			1,02			8,7
Handelsvermittlung u. Großhandel	8,5				0,90		7,7
Maschinenbau	8,5	1,63					13,9
Metallerzeugung und -bearbeitung	8,3	3,56					29,4
Elektrogeräte, Rundfunk, Fernsehen	8,3				0,52		4,3
Einzelhandel (ohne Kfz)	8,1				0,75		6,1
Papier u. Pappe	7,9	2,08					16,5
Herst.v.Chemikal. und Ch.Erz.	7,9		1,49				11,7
Gesundh.-,Veterinär-u.Sozialwesen	7,1				0,57		4,0
Verlagsw.,Druck.,Vervielfält.	6,6	2,51					16,5
Mit Kredit-u.Vers.wesen verb.Tät.	6,0					0,00	0,0
Bergbau	4,9	2,51					12,3
Sonstiger Fahrzeugbau	3,9	8,50					33,3
Exterit. Organisationen	3,0					0,28	0,8
Unterrichtswesen	2,2					0,32	0,7
Kredit, Versicherung	1,6					0,31	0,5
Kokerei, Mineralölverarbeitung	1,6					0,00	0,0
Nachrichtenübermittlung	0,7					0,00	0,0
Energieversorgung	0,5				0,59		0,3

Quelle: Hauptverband der österreichischen Sozialversicherung; WIFO, eigene Berechnungen.

Despite strong growth of demand, unemployment was also rising strongly in Burgenland in the period 1988 to 1998, in the second half of the decade even above average.

In the typical 'foreign labour branches' textiles and clothing industry, or cleaning of buildings, the rate is much lower than in Austria, in tourism only about the same, while in skill-requiring manufacturing branches (car manufacturing, other metal processing, paper industry, but also chemical industry) at times much higher. Leaving out those branches with very low shares of foreign labour, such as credit and insurance, mineral oil or the public sector, the location coefficients tend to rise with rising skill requirements.

This can be explained by the fact that in the low-wage sectors the employment conditions of a foreigner cannot be below the usual (negotiated) wage tariff level of an Austrian. Skilled labour, on the other hand, is scarce and more often paid above the negotiated wage level – and frequently not available locally at all. Unless it is recruited among the commuters out of the region (to Vienna, Wr. Neustadt or Graz), skilled labour is recruited abroad. For the contracting low-wage sectors, however, this part of the labour market represents no alternative. Only long-term educational efforts can induce a sustainable improvement of the situation of the local labour force.

### *Conclusions*

Regions that get a significant growth impetus from the opening up of the borders are subject to very fast structural change. The pace of the latter often exceeds the adjustment capability of the local labour supply and necessitates external recruitment – although at the same time unemployment is emerging in the contracting segments of the economy.

Strong efforts in the field of training are needed to cope with this phenomenon (to moderate the joint appearance of immigration with rising unemployment); prohibition of immigration could endanger the expansionary process and hinder in the long term the transformation of border regions into growth regions due to their gateway functions.

Regions lacking that growth impetus, be it for topographical, institutional or other reasons, are also experiencing little immigration, as the mobility of persons ready to migrate obviously leads them to more dynamic regions.

Paradoxically, there is thus a fear that social problems linked to immigration will emerge in the very regions that draw the greatest advantage from the opening of the borders. This advantage is however reaped at the cost of an increased speed of restructuring which entails losses (absolute or relative) to some segments of the community. Under unfavourable circumstances a control of immigration (through transition periods) might not prevent the emergence of such 'losers' (particularly in the form of some incidence of unemployment in certain labour market segments); it could however weaken the dynamics

of the process of adjustment and generate lasting damage to locational competitive advantages. Hence a differentiated form of controls has to be found which concentrates on the avoidance of substitution effects without hindering useful and important additions to the labour force potential in such periods of dynamic structural adjustment.

### **3.3 Migration in Slovenian regions (Pomurska, Podravska, Koroška, Gorenjska)<sup>17</sup>**

#### **3.3.1 Introduction**

Internal migration (migration mobility within the country) is very low in Slovenia in comparison to other European countries. Only 9 out of 1000 inhabitants changed the domicile community within Slovenia over the years 1995-1997, whereas this amounted to 48 in Germany (1994) and 63 in Denmark (1997). Main immigration regions in Slovenia are the Central Slovenian region, Pomurje, Podravje and Koroška (Dolenc, 1998, pp. 546).

External migration is in most countries as a rule a poorly registered phenomenon. In Slovenia the statistical basis (register of population, censuses) in this field is better than in many other former socialist countries as well as in comparison to some developed countries.

In the 1960s Slovenia became an immigrant country for immigrants from other parts of former Yugoslavia and held this position for a long period. In 1991 the share of the non-Slovenian population amounted to 12% of all population. In the 1990s many refugees have joined other immigrants. On the other hand Slovenia has been an emigrant country too for a long period. In 1991 the share of registered (“temporary”) emigrants amounted to 3% of total population.

In the 1980s the stock of registered Slovene emigrants did not increase (on the other hand the educational attainment of emigrants increased very much), but for the 1990s no valuable conclusions about this are possible yet – some further analyses are required on this topic. For the 1990s valuable conclusions are possible only for the highest educated population – in the middle of the decade the potential brain drain among researchers was very high.

The image of Slovenian long-term immigrants in the western European countries is generally highly ranked. They rank straight after the immigrants from western countries. This ranking is based on the ability to adjust, hard work and cultural resemblance with west-European countries. The absolute low number of Slovenian immigrants in the mentioned countries give them specific advantages as western countries are not afraid of

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<sup>17</sup> The analysis in this chapter excludes the Savinjska region – the fifth region bordering Austria.

overflowing. A major disadvantage is inaccurate knowledge which western employers have of the geographic location of Slovenia and linking Slovenia and Slovene immigrants with the former Yugoslavia.

For a long period Slovenia did not have its own migration policy and was too passive on acting on the migration pressures from East and South. It also has not kept good contacts with its emigrants and has not directed its remigration flows. The formulation and implementation of an appropriate migration policy is a hard task for Slovenia, especially as Slovenia is at the same time immigrant and emigrant country. At the end of 1999 the process of forming a consistent migration policy started.

In the following sections the internal and external migration in and from Slovenia will be presented with the special emphasis on the four regions bordering Austria.

### **3.3.2 Interregional migration in Slovenia**

Migration mobility is very low in Slovenia, interregional migration (as opposed to commuting) represents the smallest part of internal migration (less than 20%) and is usually restricted to neighbouring regions.

Internal migration in Slovenia was the highest in the 1970s when construction activities were very intense. The change in living conditions and acquiring a new flat were the most important reasons for internal migration followed by a change in marital status and change of employment in the 1970s. From 1992 to 1995 the number of internal migrants was falling and after 1995 it started to increase again. After 1995 a huge number of new municipalities was established in Slovenia and, since by internal migration we consider migration across municipalities, this was one of the reasons for the above mentioned increase after 1995. Most of interregional migration is limited to short distances, mostly to neighbouring regions. The majority of internal migrants move to Central Slovenia, while the least "interesting" are the three south-western regions and the Zasavska region. Among the four regions bordering Austria the Podravska and Gorenjska regions are target zones for internal migrants.

Table 19

### Internal migration by statistical regions (inter-regional migration), 1996

Region of emigration	Region of Immigration												
	Total	Pomurska	Podravska	Koroska	Savinjska	Zasavska	Posavska	Dolenjska	Central	Gorenjska	Karst	Goriska	Coastal
Total													
SLOVENIA	5598	274	627	189	569	216	251	380	1527	762	226	214	363
Pomurje	279	-	134	7	18	-	3	2	93	12	1	4	5
Podravje	655	136	-	61	185	6	20	11	156	33	11	15	21
Koroska	241	11	72	-	76	2	2	4	54	13	1	1	5
Savinjska	675	34	196	80	-	37	42	10	203	28	9	9	27
Zasavska	162	2	6	-	42	-	16	2	73	5	2	3	11
Posavska	256	1	21	3	46	12		79	78	4	3	2	7
Dolenjska	319	1	7	-	15	13	64	-	177	17	6	4	15
Central	1717	68	106	23	127	130	76	235	-	574	147	71	160
Gorenjska	616	13	42	8	29	9	18	19	387	-	11	48	32
Karst	157	1	1	1	3	1	1	3	87	11		12	36
Goriska	257	3	23	2	13	4	3	7	104	41	13	-	44
Coastal	264	4	19	4	15	2	6	8	115	24	22	45	-

Table 20

### Internal migration by regions (inter-regional migration), 1998

Region of emigration	Region of Immigration												
	Total	Pomurska	Podravska	Koroska	Savinjska	Zasavska	Posavska	Dolenjska	Central	Gorenjska	Karst	Goriska	Coastal
Total													
SLOVENIA	5856	313	652	152	576	231	301	421	1591	693	304	215	407
Pomurska	334		172	6	22	-	-	6	81	10	4	12	21
Podravska	631	137	-	51	159	5	16	13	155	25	11	21	38
Koroska	205	14	56	-	59	-	2	4	47	6	7	2	8
Savinjska	657	28	182	64	-	42	60	16	188	29	4	14	30
Zasavska	218	2	17	-	60	-	14	6	97	11	-	2	9
Posavska	251	8	12	3	61	11	-	64	69	13	2	3	5
Dolenjska	360	1	22	1	12	1	72	-	200	20	9	5	17
Central	1766	70	103	17	137	157	80	253	-	515	189	74	171
Gorenjska	614	24	32	6	23	9	30	36	389		16	29	20
Karst	196	9	10	-	8	-	4	3	106	5	-	8	43
Goriska	303	5	18	2	20	2	6	6	142	40	17	-	45
Coastal	321	15	28	2	15	4	17	14	117	19	45	45	-

The reasons for the low internal mobility of the Slovene population are the following (Dolenc, 1998, p. 547):

- Slovenia is a small country
- the transport infrastructure is poor, which makes some regions unattractive for migration
- the population is unwilling to work far away from the place of living or they are unwilling to move because Slovenians' ideal is their own house or at least a flat, which restricts their mobility
- lack of flats for rent
- most of buildings take place on inherited land, which is usually close to the domicile

As opposed to migration mobility we can observe high and intensive daily commuting into close and far surroundings and among bigger employment centres. The index of daily commuting showed that in 1991 (last census) 54 municipalities were residential, 51 were highly residential and 14 were working areas, among them all city communities.

### **3.3.3 External migration ('stock' of emigrants)**

The total number of registered Slovenian emigrants fell on average between 1981-1991 (year of the census). As for the regions bordering Austria, it rose only in the Koroška region; in the region of Pomurje it remained at the same level.

Over the period 1981-1991 the share of employed among the registered Slovenian emigrants was falling; on the other hand, the share of members of the active labour force was rising among emigrants (from 80% to 86%). 2.7% of the total population or 3.5% of the active labour force were emigrants in 1991 (the corresponding figures for 1981 are 2.8% and 3.7%). The share and structure of Slovenian emigrants from the four regions bordering Austria is presented in Table 21.

The regions Podravje and Pomurje have the highest share of total registered Slovenian emigrants.

The share of Slovenian population that works abroad depends on economic developments (at home and abroad), on chances of getting suitable jobs at home, on the distance from the Slovenian border and other factors. In Pomurje, the region with the highest share of population in emigration in 1991, the level of economic (GDP per capita) and general development is the lowest and the unemployment rate is the highest among all Slovenian regions.

Most of the registered Slovenian emigrants live in Germany (1991: 50%). By the last census (1991) this was true for emigrants from all regions except the coastal region. In 1991 one third of all registered Slovenian emigrants in Germany were emigrants from Podravje. Other countries that attract large numbers of Slovenian emigrants are Austria (1991: 14.5%), Switzerland (1991: 7.7%) and Italy (1991: 5.4%). In 1991, Slovenian emigrants registered in Austria originated primarily from the Pomurje region (Bevc and Logar, 1992, p. 9).

Table 21

**Registered Slovenian emigrants from regions bordering Austria:  
Number (stock) and structure, by region of domicile, 1991**

Region	Number			Structure (%)		
	Total	Employed	Family members	Total	Employed	Family members
<i>Slovenia</i>	52631	40327	12304	100	100	100
Pomurje	8214	6409	1805	15.6	15.9	14.7
Podravje	14088	10841	3247	26.8	26.9	26.4
Koroška	1423	1104	319	2.7	2.7	2.6
Gorenjska	3359	2580	759	6.3	6.4	6.2

*Source:* M. Bevc and F. Logar, Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 4,5.

The average age of registered Slovenian emigrants in 1991 was 36 years (male: 37, female: 35). The youngest emigrants on average came from the region of Pomurje (34.6). The average age of emigrants from the Podravje region was 35.4, from Koroška 35.0 and from Gorenjska 36.6 years. The average age of Slovenian emigrants who worked in Austria was 33.3 and the average age of all Slovenian emigrants in Austria (employed and family members) was 35. On average the youngest registered Slovenian emigrants work in Great Britain and the oldest in Argentina, Australia and Canada (by the census in 1991).

The Slovenian population stay and work abroad for 14.5 years on average, their family members stay abroad for shorter periods, 11 years on average. Table 22 gives the average number of years of staying abroad for emigrants according to regions. There are no big differences in the average number of years staying abroad among regions; in general the number of years is higher for females than for males.

The average number of years of schooling (education) of Slovenian emigrants older than 15 years was in 1991 higher than the average years of schooling of the Slovenian population of the same age group. The least educated were emigrants from Pomurje; the emigrants from central Slovenia had the highest educational attainment. The countries with the least educated Slovenian emigrants in 1991 were Germany and Austria.

Table 22

**Registered Slovenian emigrants from regions bordering Austria:  
Average number of years staying abroad, by region of domicile, 1991**

Region	Total	Male	Female
<i>Slovenia</i>	13.9	13.5	14.4
Pomurje	14.0	13.6	14.4
Podravje	14.0	13.6	14.5
Koroška	13.1	12.0	14.5
Gorenjska	13.8	13.2	14.4

*Source:* M. Bevc and F. Logar, Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 13.

### 3.3.4 Emigrants with highest education (stock and flow)

The **stock** of Slovenian emigrants with highest education (16 or more years of schooling) was on the increase between 1981 and 1991, mostly from the regions of Koroška, Pomurje and Goriška. The majority of the most highly educated emigrants in 1991 came from Central Slovenia, Podravje and Gorenjska.

Table 23

**Slovenian emigrants with highest education<sup>1)</sup> from regions bordering Austria:  
Number (stock) and structure, by region of domicile, 1991**

Region	Total	Employed	Family members
<i>Slovenia</i>	1993	1836	157
Pomurje	76	74	2
Podravje	256	233	23
Koroška	28	26	2
Gorenjska	216	205	11
STRUCTURE (%)			
Slovenia	100	100	100
Pomurje	3.8	4.0	1.3
Podravje	12.8	12.7	14.7
Koroška	1.4	1.4	1.3
Gorenjska	10.8	11.2	7.0

*Note:* 1) 16 or more years of schooling.

*Source:* M. Bevc and F. Logar, Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 21.

In 1991, the Podravje region recorded the largest number of emigrants with highest education among the regions bordering Austria, and the second largest number of those emigrants from all Slovenian regions (most were from the Central Slovenia region).

Emigrants with highest education are more dispersed across different countries than Slovenian emigrants in general. In 1991, about 16% (or 320 persons) of all Slovenian emigrants with highest education were registered in Austria; they came from central Slovenia, Podravje and Gorenjska. This represents 4% of all registered Slovenian emigrants in Austria in 1991. The bulk (24%) of Slovenian emigrants with highest education lived in Germany. Slovenian emigrants with 16 or more years of schooling were on average older than all registered Slovenian emigrants. The youngest most highly educated emigrants were from the regions of Dolenjska and Koroška. Slovenian emigrants with highest education stay abroad on average for a shorter period of time than Slovenian emigrants in general. In 1991 the average number of years they spent abroad was 9.5 years (Bevc and Logar, 1992, pp. 27-30).

Table 24

**Slovenian emigrants with highest education<sup>1)</sup> from regions bordering Austria:  
Average number of years spent abroad, 1991**

Region	Total	Male	Female
<i>Slovenia</i>	9.5	9.3	9.8
Pomurje	8.8	8.6	8.9
Podravje	9.9	9.7	10.3
Koroška	8.4	9.3	6.1
Gorenjska	10.1	10.1	10.2

Note: 1) 16 or more years of schooling.

Source: M. Bevc and F. Logar, Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 30.

The structure of the stock of registered Slovenian emigrants with highest education in Austria by type of finished higher education is the following: 15% of them completed the Faculty of Philosophy, 14% the Faculty of Economics, 8% the Faculty of Electronics, 7% finished the Faculty of Medicine and 6% completed the Faculty of Engineering.

An analysis of potential emigration of Slovenian researchers with master's and doctor's degrees shows that in the mid-1990s there were 7% of 'certain' emigrants, 69% were hesitant and 24% were non-migrants. Among the potential emigrants (certain and hesitant) within the population under consideration, one can distinguish three groups (Bevc, 1996, pp. 11f):

- short-term emigrants (1-3 years): 75% of all Slovenian emigrants; in all other 9 CEECs observed except Bulgaria the share of these emigrants was lower;
- medium-term emigrants (4-5 years): 10%; in Slovenia there is a higher share than in all other CEECs except Bulgaria, Romania and Lithuania;
- long-term emigrants (more than 5 years) 15%; in Slovenia there is a higher share than in all other CEECs except Bulgaria.

There are many factors influencing the probability of going abroad for more than one year. Demographic factors tell us that young people, especially those aged less than 30 years, are more inclined to go abroad. Those who are single, divorced and do not have children under 18 years are more strongly inclined to go abroad than the others. Researchers who have a master's degree are more inclined to go abroad for more than one year than those with a PhD.

The career development, financial prosperity, status in the organization of employment, good research infrastructure, modern way of life and professional fulfilment were more important for certain emigrants than for hesitant and non-emigrants among researchers with master's and doctor's degrees.

The propensity to short-term migration is highest among researchers from the social sciences and humanities, to medium-term migration (6-10 years) among researchers from the natural, medical and bio-technical sciences, and the propensity to long-term emigration is highest among researchers from the technical sciences.

The researchers who intend to go abroad for a longer period have worse working conditions than those who plan to go abroad for a shorter period. Among those who plan to stay abroad for 1-5 years, most plan to go to the USA, Germany and Great Britain. Among those who plan to go abroad for 6-10 years, the most desired countries/continent are the USA, Austria and Asia. Among those who plan to go abroad for more than 10 years, the most desired countries are the USA, Germany, France, Great Britain, the Scandinavian countries, Canada and Australia. The potential external mobility of Slovenian scientists was high in the mid-1990s in absolute and in relative terms and regarding the structure of this migration the potential brain drain was also considerable.

### **3.3.5 Returning of Slovenian emigrants from abroad**

In the period from 1981 to 1991 around 10,000 registered Slovenian emigrants returned to Slovenia. In the same period the estimated number of new emigrants was 8400. Estimation is that in the period observed emigration was much higher than immigration in the regions Goriška, Kraška and Koroška. On average, the least educated emigrants stayed abroad for the longest period (Pomurje, lower Posavje and Dolenjska), while the most educated emigrants stayed abroad for the shortest period – Gorenjska, coastal region and central Slovenia.

### 3.3.6 Internal and external migration in period 1992-98 (flow)

Over the period 1992-98 the total annual number of emigrants to Austria from Slovenia did not vary a lot. It was lowest in 1992, when only 80 persons emigrated to Austria. In all other years it amounted to around 130 emigrants. It is interesting to note that the number of female emigrants was constantly falling in this period. The share of female emigrants to Austria reached its peak in 1993, since then it was falling and reached the lowest percentage in 1998 (44%).

When looking at the regions near the Austrian border, we can see that the highest number of emigrants to Austria in the years 1992-1995 came from the Koroška region. Later on, in 1996-1998, this turned around and there were very few emigrants from Koroška.

Table 25

#### Interregional migration in Slovenia, 1995-1997, regions bordering Austria

	Number of migrants per 1000 inhabitants - Coefficient		
	immigrants	emigrants	increase/decrease
<i>Slovenia</i>	2.8	2.8	0.0
Pomurje	2.2	2.4	-0.2
Podravje	1.9	2.2	-0.3
Koroška	2.3	3.0	-0.7
Gorenjska	3.6	2.9	0.7

Source: D. Dolenc, Strategic questions on statistical observation of migration and regional integration within Slovenia, Paper on a conference Statistical days 1998, p. 548.

Table 26

#### Slovenian emigrants to Austria: Share of female emigrants, 1992-1998

Year	Share (%)
1992	38.75
1993	54.3
1994	49.7
1995	48.5
1996	48.6
1997	47.1
1998	44.3

Source: Data from Statistical Office of the Republic of Slovenia.

The educational attainment of emigrants to Austria has been increasing. Among emigrants over the period 1992-1994 the majority had finished primary school (8 years) whereas among emigrants over the period 1995-1998 the majority had finished professional or technical school. The share of emigrants with at least two years of third level of education is very small and amounts from 2.2-6.6% of all emigrants over the whole period 1992-

1998. The educational attainment of Slovenian emigrants to Austria in the mentioned period is the following: 56% of them had finished primary school or less, 37% had finished professional, technical or secondary school and 7% of all emigrants had higher education. Educational attainment of female emigrants seem to be approximately the same as that for male emigrants.

Table 27

**Slovenian emigrants from regions bordering Austria:  
Share in all Slovenian emigrants to Austria, 1992-1998 (%)**

	<b>Pomurje</b>	<b>Podravje</b>	<b>Koroška</b>	<b>Gorenjska</b>
1992	17.5	13.8	27.5	10.0
1993	16.0	12.6	26.3	13.1
1994	11.2	22.4	23.0	14.9
1995	10.6	17.4	21.2	20.5
1996	21.6	18.0	6.3	19.8
1997	14.7	19.9	17.6	25.0
1998	23.7	20.6	13.7	11.5

*Source:* Data of Statistical Office of the Republic of Slovenia.

The majority of Slovene emigrants to Austria over the period 1992-1998 were aged between 20 and 50 years (72%); in greater part of this age group (30-50) the share of men is higher than the share of women.

Table 28

**Slovenian emigrants with highest education from regions bordering Austria:  
Share in all Slovenian emigrants to Austria, 1992-1998**

Year, region	Share of emigrants with HE among all Slovenian emigrants to Austria (%)	Share of women among emigrants with HE (%)
<b>1992</b>		
<i>Slovenia</i>	6.25	40.0
Pomurje	0.0	0.0
Podravje	18.2	50.0
Koroška	0.0	0.0
Gorenjska	25.0	0.0
<b>1993</b>		
<i>Slovenia</i>	2.3	75.0
Pomurje	0.0	0.0
Podravje	4.5	100.0
Koroška	0.0	0.0
Gorenjska	13.0	66.7
<b>1994</b>		
<i>Slovenia</i>	5.0	25.0
Pomurje	5.6	0.0
Podravje	0.0	0.0
Koroška	5.4	50.0
Gorenjska	8.3	0.0
<b>1995</b>		
<i>Slovenia</i>	2.3	66.7
Pomurje	14.3	50.0
Podravje	0.0	0.0
Koroška	0.0	0.0
Gorenjska	0.0	0.0
<b>1996</b>		
<i>Slovenia</i>	5.4	66.7
Pomurje	0.0	0.0
Podravje	5.0	0.0
Koroška	0.0	0.0
Gorenjska	4.5	100.0
<b>1997</b>		
<i>Slovenia</i>	5.5	33.3
Pomurje	0.0	0.0
Podravje	3.7	100.0
Koroška	0.0	0.0
Gorenjska	14.7	20.0
<b>1998</b>		
<i>Slovenia</i>	3.8	40.0
Pomurje	0.0	0.0
Podravje	7.4	50.0
Koroška	0.0	0.0
Gorenjska	6.7	100.0

Source: Data of the Statistical Office of the Republic of Slovenia.

Table 29

**Slovenian emigrants to Austria:  
Share of age group 20-59 years, 1992-1998**

Year	Share of emigrants aged 20-59 years
1992	77.0
1993	76.0
1994	83.9
1995	75.0
1996	78.4
1997	80.9
1998	80.2

*Source:* Data of the Statistical Office of the Republic of Slovenia.

### 3.3.7 EU and Slovenian legislation on migration

#### *Visa*

The Government of Slovenia has decided to harmonize its visa policy with the EU by the end of 1999. The present visa-free regimes with Bulgaria, Macedonia, Romania, Russia and Turkey are in violation of the EU negative list. The new Alien's Law will implement the regulation on a uniform format for visas and the joint action on airport transit visas. The common consular instruction, as required by the Schengen system, will also be included in the new Law.

The 42 embassies and consulates are not connected through a central computer system. In order to introduce the SIS (Schengen Information System), in May /June 1999 the first embassies will be connected, and according to the plans, by the end of 2001, the computer network should have been completed.

#### *Migration*

The new Alien's Law, incorporating the EU and Schengen acquis, is expected to enter into force by the end of 1999. It is modelled after the Austrian and German Alien's legislation.

An application for entry may only be filed from abroad and there are only limited possibilities to change the purpose of the stay once inside the country. Filing an application inside the country is only possible through a special permission by the Ministry of Interior. An immigration quota is determined by Parliament every two years. Special rules applicable for citizens of the EEA are not yet planned.

In 1998 45.000 foreigners were residents in Slovenia; 5.000 were holders of permanent resident permits and 3.500 (in particular citizens of Bosnia and Herzegovina) enjoyed temporary protection.

Concerning expulsions, there are problems with regard to some countries in Africa and Asia as well as Yugoslavia. Since there are no diplomatic relations with Yugoslavia, documents cannot be provided and direct expulsion is not possible. The main reason of expulsion is illegal border crossing, followed by illegal employment.

Persons to be expelled are accommodated under police observation for a maximum of 30 days, while personal documents are prepared and the expulsion is organized. When this time period is over, the person to be expelled has to be released and then s/he will often disappear. The new Alien's Law includes provisions making it possible to detain the person to be expelled for six months, and in exceptional cases, 12 months.

Concerning expulsions, Slovenia does not experience any problems in the EU harmonization process.

Slovenia has readmission agreements with 21 states: eight EU Member States, including Austria, twelve other European states as well as Canada. The agreements with Switzerland, Canada and Romania are not in accordance with the EU model agreement. The agreement with Switzerland does not include a provision on transit arrangement and the agreements with Canada and Romania do not include an obligation to readmit third country nationals. Presently, negotiations are underway with Romania to harmonize the agreement with EU standards. Slovenia would like to conclude a readmission agreement with the Federal Republic of Yugoslavia. But the main problem is that the two states do not have diplomatic relations. Concerning readmission to Bosnia and Herzegovina, a multilateral transit agreement, to which Austria, Germany and Croatia are parties, has been signed.

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## ANNEX B

### Basic data on the stock of registered Slovenian emigrants by the last census, 1991

Table B/1

#### Registered Slovenian emigrants from regions bordering Austria: Number (stock) and structure, 1991

Regions	Number	Share in Slovenia (%)	Female share (%)	Share of employed (%)
<i>Slovenia</i>	52631	100	45	76.6
Pomurje	8214	15.6	43.3	78.0
Podravje	14088	26.8	45.0	76.9
Koroška	1423	2.7	44.9	77.6
Gorenjska	3339	6.3	45.6	77.3

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 55.

Table B/2

#### Regions bordering Austria: Size of emigration (stock), economic development and unemployment, 1991

Regions	GDP p.c. 1990 (SLO = 100, index)	% of emigrants in population of the region	Unemployed at home - % of labour force	Temporarily at work abroad - % of labour force
<i>Slovenia</i>	100	2.7	7.1	3.1
Pomurje	71	6.3	9.0	7.7
Podravje	90	4.4	8.8	5.0
Koroška	84	1.9	5.2	2.3
Gorenjska	96	1.7	11.6	2.1

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 56.

Table B/3

#### Registered Slovenian emigrants (stock) from regions bordering Austria: Age structure and average age, by region, 1991

Age groups	<i>Slovenia</i>	Pomurje	Podravje	Koroška	Gorenjska
Total	100	100	100	100	100
0-14	10.9	11.4	11.2	9.6	10.0
15-19	7.6	8.0	7.4	7.4	7.6
20-29	15.4	14.3	16.3	19.4	15.8
30-39	18.8	23.1	18.9	21.2	16.3
40-49	30.0	31.9	30.1	28.5	30.4
50-59	12.7	8.4	11.8	10.3	15.2
60-64	2.2	1.4	2.3	1.5	2.3
65+	2.2	1.3	1.8	2.2	2.2
Unknown	0.2	0.2	0.2	0.1	0.1
Average age	35.9	34.6	35.4	35.0	36.6

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 59.

Table B/4

**Registered Slovenian emigrants (stock) from regions bordering Austria:  
Years of work abroad, 1991**

Years of work abroad	<i>Slovenia</i>	Pomurje	Podravje	Koroška	Gorenjska
Total	100	100	100	100	100
1-5	20.5	20.8	19.5	24.5	21.0
6-10	10.0	10.7	9.9	8.4	9.4
11-15	10.2	12.7	10.4	9.0	9.5
16-20	19.4	26.0	20.5	18.6	15.5
21-25	16.6	18.7	17.6	14.5	16.8
26-30	5.2	4.5	4.9	3.7	5.7
31-35	1.0	0.5	0.7	0.9	1.1
36-40	0.3	0.2	0.1	0.9	0.1
40+	0.0	0.0	0.0	0.0	0.0
Unknown	16.9	5.9	16.4	19.5	20.8
Average years	13.9	14.0	14.0	13.1	13.8

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 60.

Table B/5

**Slovenian emigrants (stock) from regions bordering Austria:  
Aged 15+, by educational attainment, 1991 (%)**

Education	<i>Slovenia</i>	Pomurje	Podravje	Koroška	Gorenjska
Total	100	100	100	100	100
Without school	0.1	0.1	0.1	0.1	0.1
1-3 years of basic education	0.2	0.3	0.1	0.5	0.1
4 years of basic education	1.2	1.4	0.8	0.8	1.1
5-7 years of basic education	4.7	6.7	4.9	5.2	2.6
Basic education (8 years)	33.2	52.0	33.1	25.6	22.6
Secondary education	36.0	30.2	39.0	40.5	40.5
2 years of higher education (14 years of schooling)	2.7	1.3	2.0	3.0	3.7
4 years or more of higher education (16 or more years of schooling)	4.2	1.0	2.0	2.2	7.2
Unknown	17.7	7.0	17.9	22.3	22.1

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 61.

Table B/6

**Registered Slovenian emigrants (stock) with highest education  
from regions bordering Austria:  
Number, by region, 1991**

	All	Employed	Family members
Slovenia	1993	1836	157
Pomurje	76	74	2
Podravje	256	233	23
Koroška	28	26	2
Gorenjska	216	205	11

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 67.

Table B/7

**Registered Slovenian emigrants (stock) in Austria with highest education:  
Structure by region of domicile, 1991 (%) and  
share in all Slovenian emigrants with highest education by region, 1991 (%)**

Region	Emigrants with highest education in Austria		% of Austria in total Slovenian emigrants with highest education
	All emigrants	Persons, temporarily at work abroad	
Total	100	100	15.6
Pomurje	6.1	6.5	25.0
Podravje	18.7	19.2	22.7
Koroška	2.9	3.1	32.1
Savinjska	5.8	5.8	13.6
Posavska	2.3	2.4	21.2
Dolenjska	0.6	0.7	7.4
Goriška	2.3	2.4	6.3
Coastal	2.6	2.7	6.7
Karst	0.3	0.3	5.9
Gorenjska	11.0	11.6	15.7
Zasavska	1.0	1.0	13.0
Central Slovenia	46.5	44.2	15.1

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 69.

Table B/8

**Slovenian emigrants (stock) with highest education from regions bordering Austria:  
Age structure and average age, by region, 1991**

Age groups	Slovenia	Pomurje	Podravje	Koroška	Gorenjska
Total	100	100	100	100	100
20-29	16.8	23.7	23.4	25.0	18.5
30-39	30.4	36.8	30.1	39.3	28.7
40-49	28.9	23.7	28.5	25.0	28.7
50-59	17.1	10.5	13.7	7.1	17.1
60-64	3.5	2.6	2.0	0.0	3.7
65+	3.4	2.6	2.3	3.6	2.8
Unknown	0.1	0.0	0.0	0.0	0.5
Average age	41.7	38.9	39.9	38.0	41.5

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 71.

Table B/9

**Registered Slovenian emigrants (stock) with highest education  
from regions bordering Austria:  
Structure by years of work abroad, by region, 1991**

Years of work abroad	Slovenia	Pomurje	Podravje	Koroška	Gorenjska
Total – structure (%)	100	100	100	100	100
1-5	44.4	43.4	41.8	53.6	44.4
6-10	14.5	21.1	12.5	14.3	11.1
11-15	9.5	10.5	9.4	3.6	9.3
16-20	10.8	9.2	15.6	7.1	14.8
21-25	8.2	5.3	7.4	17.9	9.3
26-30	4.2	3.9	4.3	0.0	3.7
31-35	1.1	1.3	0.8	0.0	1.4
36-40	0.5	0.0	0.4	0.0	0.9
40+	0.1	0.0	0.0	0.0	0.0
Unknown	6.8	5.3	7.8	3.6	5.1
Average years	9.5	8.8	9.9	8.4	10.1

Source: Bevc M, Logar F.: Brain drain and economic development of Slovenia – part 1, IER, 1992, p. 72.

#### 4. Transport policy

Major road and rail links to south-east Europe, the Middle East and the Adriatic ports pass through Slovenia. The Slovenian sea port of Koper is currently the most important transshipment centre for Austrian trade overseas. Given the great importance of Slovenia in terms of transport policy, the European Economic Community (EEC) concluded a transit agreement with Slovenia in 1993 which, *inter alia*, provided for free transit. The two-way traffic between Austria and Slovenia (i.e. traffic originating in one country and terminating in the other) will increase with growing integration.

##### 4.1 Developments in the transport sector

Unlike Hungary and the Czech Republic, the movement of people and goods between Slovenia and Austria prior to 1990 was not subject to any major restrictions, with the exception of cross-border road haulage and bus traffic. At that time, the flow of tourist and migrant workers as well as goods traffic between Yugoslavia, Turkey, Greece, the Middle East and Western Europe passed for the most part along the road and rail links through Austria and Slovenia. The Yugoslav crisis in 1991 disrupted transit traffic and the problems persisting in the Federal Republic of Yugoslavia have constrained its recovery since. Insofar as Austria's transport infrastructure is concerned, current transit traffic is for the most part comprised of haulage traffic between Croatia, Bosnia-Herzegovina and Western Europe.

The capacity of road freight traffic in Slovenia slumped as a result of the disruption to transit traffic from 4.9 billion tkm in 1990 to 2.4 billion tkm in 1995 (see Table 30). Rail freight traffic accounted for 4.2 billion tkm in 1990, yet only 2.3 billion in 1994. Whereas overall freight traffic in Slovenia has increased only slightly over the past few years, two way traffic with Western Europe has experienced appreciable growth.

Approximately 60% of all freight traffic between Austria and Slovenia relates to transport by sea via Koper. Over the past twenty years this Adriatic port has developed into the most important port for Austrian exports overseas. Initially it was mostly Austrian wood exports that were transhipped in Koper. In the eighties, however, the importation via Koper of commodities destined for Austrian industry increased markedly. In 1997 imports outstripped exports by a factor of more than five (see Table 31). Koper accounted for 26.4% of all Austrian transshipments via European ports and thus lay slightly ahead of Rotterdam (26.4%). The shares enjoyed by the most immediate competing ports were well below this figure: Trieste (7.6% excluding transshipments of oil) and Rijeka (5.0%). In the course of the 1980s, both ports had to concede market shares to Koper and Austrian transshipments via Koper exceeded those via Trieste in 1986 and via Rijeka in 1989.

In terms of bilateral traffic rail is the most important carrier, whereas transit traffic from Slovenia to north-west Europe via Austria is primarily effected by road. In that connection, by far the most important country of origin and destination is Germany (see Tables 32 and 33). The Czech Republic ships a relatively large amount of goods to Slovenia by rail, primarily to the port at Koper.

Within the framework of the total traffic concept it is forecast that road haulage traffic bears a far greater potential for growth than rail transport. Particularly high growth rates are envisaged for traffic between Slovenia and the Czech Republic.

The motorization process is relatively far advanced in Slovenia. The level of car ownership is on a par with that in Austria in 1992. Growth in incomes in the course of EU-integration could well promote car-ownership and thus induce an increase in the number of car-trips from Slovenia to Austria.

## **4.2 Infrastructure**

Two corridors in the European road network traverse Slovenia:

- Corridor V running south-west – north-east from Italy to Hungary with the segment Koper – Ljubljana – Pince; and
- Corridor X running north-west – south-east from Austria to Croatia with the segment Karawanken tunnel – Lubljana – Obrezje.

Of particular significance for Austria is the feeder route a on Corridor X leading from Graz via Maribor to Zagreb.

#### *Road links*

Since 1970 Slovenia has been building motorways along the two corridors. Up to the end of 1993 197 km of dual-carriageway motorway had been built, of which 69 km were single-carriageway motorway (Zmavc, 1999). A national programme for the expansion of motorways in the Republic of Slovenia was drawn up for the construction of the motorways missing along Corridors V and X, as well as additional motorway segments, feeder roads and connecting roads. At the outset of 1994 Slovenia began to implement the programme. In the first five years, 136.5 km of motorway were built. The corridor motorways are currently scheduled for completion in 2004.

The transit motorways crossing Austria (the Tauern, Pyhrn and South motorways) that link up to the Slovenian motorway network are almost complete thoroughfares. The one remaining gap in the Pyhrn motorway will presumably be closed by 2005 (Höfler, 1999)

#### *Rail links*

The spinal chord of the Slovenian rail system comprises:

- the axis Trieste/Koper ; Ljubljana - Maribor – Budapest (Corridor V);
- the axis Jesenice – Ljubljana –Zagreb (Corridor X); and
- the link Spielfeld – Maribor – Zagreb (Corridor Xa).

The direct rail link between Maribor and Budapest is being re-laid. At present, the major transit routes are not being used to full capacity; however, the increases to be expected once the situation in Yugoslavia has normalised make it necessary to effect track renewal in time and to extend current segments. Second tracks are already being laid along several stretches. The Slovenian sections of the European high-speed rail system should be complete by 2005 (Zgonc, 1997).

In Austria work is being continuously carried out to improve the capacity of the feeder routes ( Tauern, Pyhrn and south routes). A key project in this context is the construction of the Semmering tunnel.

### **4.3 Regulating cross-border road haulage traffic**

Within the EU cross-border road-haulage traffic is completely liberalised, the only exceptions being those contained in Protocol 9 of the bills relating to accession of Austria, Finland and Sweden to the European Union that govern transit traffic via Austria.

Accordingly upon the entry of those countries, Slovenian hauliers were able to transport unlimited quantities of goods between Slovenia and Austria (bilateral traffic), within Austria (cabotage) and between Austria and other EU-countries (third-country traffic).

Road haulage traffic between EU countries and non-member countries is governed bilaterally.

#### *Transit traffic*

In 1993 the European Economic Community concluded a transit agreement with the Republic of Slovenia (93/409/EEC). The agreement was designed to contribute to the completion of the internal market as it guarantees free transit through Slovenia for all internal traffic between Greece and the other Member States and 'thereby enables international trade to be conducted at the least possible cost to the public at large and to reduce to a minimum the administrative and technical obstacles which affect it'. The parties to the agreement agreed to impose no restrictions on either EU transit traffic through Slovenia or Slovenian transit traffic through the Community.

Upon the accession of Austria to the EU and given the exceptions pertaining to transit traffic through Austria provided for in Protocol 9, a change to the agreement of 1993 was called for. With effect from 1 January 1995 'non-discriminatory' treatment was to be accorded to trucks from the Community and Slovenia in transit through Austria. Initially the bilateral accord reached between Austria and Slovenia was in force: however, as of 1 January 1997 the eco-points system applies. For the time being it will remain in force until 31 December 2003.

The eco-points system is based on the performance-specific emission of nitrous oxide and its valuation in terms of eco-points. Under this system every truck in transit through Austria requires a number of eco-points equivalent to the value of the NO<sub>y</sub> emission in grams per kWh of the truck performance value according to conformity of production (COP value) and/or the type approval (rating docket) (*Puwein,1998*). Each year the number of eco-points allotted to haulage contractors in Slovenia is reduced; if the average performance-specific NO<sub>x</sub> emission is reduced accordingly, the actual number of transit runs may in fact remain the same. If the average emission values of the fleet of trucks used are reduced still further, the actual number of transit runs can be increased by up to 8%. The transit rights accorded to Slovenian trucks were calculated on the basis of 46,000 runs (see Table 34). In 1999 Slovenia was allotted 377,209 eco-points, a sum corresponding to an average NO<sub>x</sub> emission of 8.2g/kWh. At present a modern truck has a COP value of 6g/kWh. In 2003 Slovenia will only be able to draw on 290,720 eco-points (on average 6.32/kWh). In addition to these transit rights, Slovenian hauliers using the 'truck on train' system are awarded eco-points as a 'reward'. They correspond to some 10,400 runs (see

Table 35). Transit runs through Slovenia are free for trucks from Austria and all other EU countries.

Over and above its quota of eco-points Slovenia also disposes of 64 CEMT passes or permits which can be used in connection with transit runs as well in bilateral traffic through and with Austria. A CEMT pass is the most comprehensive permit for international road haulage traffic. The European Conference of Transport Ministers (CEMT) issues these permanent passes on the basis of bilateral agreements. Valid for cross-border road haulage traffic, they cover third-country transport, but not cabotage. Austria currently has 64 such permits. Some countries have more, others fewer; of which, however, only a maximum of 64 are valid in Austria.

#### *Bilateral traffic*

According to the road haulage act, the commercial transportation of goods using vehicles registered abroad in a non-EU country is in principle subject to authorization. Authorization is granted by the Federal Ministry for Science and Transport via the provincial governments. Under normal circumstances permits (quotas) are issued on the basis of bilateral or multilateral agreements (CEMT passes) according to the principle of reciprocity. In 1993 Austria came to a bilateral agreement with Slovenia on the issuance of a normal quota of 20,000 permits. For runs to and from the port at Koper Austria was accorded a quota of 6,000 special permits. By way of compensation Slovenia received 2,000 permits over and above the normal quota. For traffic within the border zone 8,500 permits were allotted (see Table 34). In addition, the CEMT passes already mentioned can be used for bilateral traffic.

#### *Cabotage traffic*

In principle Austrian trucks are not permitted to carry out cabotage runs in Slovenia and the same prohibition applies to Slovenian trucks in Austria. However, where deliveries and collections in the combined road and rail transport mode are concerned, agreement can be reached on a specific number of cabotage runs on the basis of reciprocity.

### **4.4 Other transport policy-related agreements**

In addition to regulating road haulage traffic, both the transit agreement between the European Economic Community and the Republic of Slovenia and the agreement between the Republic of Austria and the Slovenian Government pertaining to the cross-border haulage of goods contain further provisions of relevance to transport policy. In keeping with the concept of 'environmentally friendly' modes of transport, both rail traffic and combined road and rail transport should be promoted. Pursuant to the transit agreement between the EEC and Slovenia and according to respective priorities, plans to expand transport

infrastructure, including the establishment of goods terminals, using Slovenian resources and within the framework of co-funding will be supported by the Community. In concrete terms the Community provides:

- Financial contributions to the completion of major infrastructural works

It participates in

- Securing loans from the European Investment Bank as well as in locating additional funds of all kinds.
- Lending particular support to those measures needed to expand and further rail transport and combined road/rail transport so as to guarantee that a major part of the bilateral traffic and transit traffic through Slovenia can be handled under environmentally friendly conditions.
- As for market access, taxes, tolls and other levies, weights and dimensions, environmental standards, social aspects and other traffic provisions, every endeavour will be made to harmonise matters and avoid discrimination.

The agreement between Austria and Slovenia is aimed at improving environmental conditions in regions particularly affected by road haulage traffic. Accordingly, goods traffic should be shifted from road to rail or sea while steps should be taken to ensure that in the cross-border traffic of goods full use is made of the latest environmentally friendly technologies - in particular with respect to the minimization of noise and pollutants emitted by the vehicles in service. Furthermore, the capacity of the rail infrastructure (including container terminals) and rolling stock should be improved. Austria is keenly interested in an efficient rail link to the sea port at Koper.

Despite its being promoted (award of quotas, financial subsidies and extension of terminals), the number of shipments via the combined mode of transport has decreased over the past decade. The Munich-Ljubljana link was shut down in 1998 and the traffic between Graz and Regensburg dropped to a quarter of the initial volume over the period 1990-1998.

#### **4.5 Summary**

- (1) Major traffic routes pass through Slovenia to south-east Europe and the Middle East. For several years the EU has lent support to the expansion of the transport infrastructure in Slovenia, in particular where surface routes to Greece are concerned. With respect to transit traffic Slovenia and the EU-countries are on an equal footing. Austria is also interested in high-capacity links to the Adriatic sea ports.

- (2) Over the next six years Slovenia will close the gaps in its motorway network to a large degree. The rail links running along the European corridors are being continuously upgraded.
- (3) At present, by far the greater part of the traffic crossing via Slovenian-Austrian border posts is transit traffic between Germany and Slovenia or traffic between Austria and Slovenia destined for the Adriatic sea ports. Upon Slovenia's accession to the EU the movement of persons and goods to and through Austria will increase.
- (4) The greater problem confronting the traffic sector in Slovenia and Austria alike will clearly be the growth in south-east transit traffic once the situation has normalised in Yugoslavia and the traffic routes through that country have been re-opened. In the interests of an environmentally friendly management of that traffic an endeavour should be made to expand the rail infrastructure in good time and to increase the capacities of the railway companies in both Austria and Slovenia.

Table 30

### Transport capacity and vehicle-ownership in Slovenia

	Goods traffic		Passenger traffic	Trucks (1,000)	Number of vehicles	
	Road (billion tkm)	Rail	Rail (billion pkm)		(1,000)	Cars (per 1,000 inhabitants)
1970	2.1	3.3	1.5		180	90
1980	3.9	3.9	1.4		420	210
1990	4.9	4.2	1.4		578	289
1995	2.4	2.9	0.6	39	698	349
1996	2.5	2.6	0.6		730	366
1997		2.9	0.6			
1998						

Source: Eurostat, ECE.

Table 31

### Austrian transshipments in Koper

	Exports	Imports	Total
	(thousand tons)		
1980	161	45	206
1985	118	454	572
1990	197	1.307	1.504
1995	379	1.334	1.713
1996	329	1.155	1.484
1997	324	1.733	2.057

Source: Verkehr Spezial, No. 37A, 11 September 1998.

Table 32

### Freight traffic from Slovenia to and through Austria

To	From Slovenia				Rail	Road	
	Rail	Forecast		Road			2015 1995 = 100
	1995	2015	1995	2015			
	(thousand tons)						
Austria	1.296	1.690	293	804	130	274	
Germany	192	417	493	2.406	217	488	
Belgium	5	12	16	58	240	363	
France	43	180	13	105	419	808	
Netherlands	15	64	24	126	427	525	
Switzerland	22	83	7	50	377	714	
Great Britain	0	0	30	153	-	510	
Denmark	4	16	3	20	400	667	
Sweden	11	41	3	24	373	800	
Czech Republic	17	98	5	56	576	1.120	
Poland	5	14	0	6	280	-	
Total	1.610	2.615	887	3.808	162	429	

Source: Federal Ministry for Science and Transport.

Table 33

### Freight traffic to Slovenia from and through Austria

From	To Slovenia				Rail	Road	
	Rail	Forecast		Road			2015 1995 = 100
	1995	2015	1995	2015			
	(thousand tons)						
Austria	1.230	2.465	192	1.144	200	596	
Germany	238	630	492	1.606	265	326	
Belgium	11	43	29	104	391	359	
France	21	62	6	35	295	583	
Netherlands	10	29	47	201	290	428	
Switzerland	26	94	7	40	362	571	
Great Britain	1	3	5	17	300	340	
Denmark	4	18	1	8	450	800	
Sweden	1	1	2	5	100	250	
Czech Republic	502	1.309	11	397	261	3.609	
Poland	1	3	1	4	300	400	
Total	2.045	4.657	793	3.561	228	449	

Source: Federal Ministry for Science and Transport.

Table 34

**Regulation of Slovenian truck traffic  
(over 7.5 ton permissible gross weight) in Austria**

- Transit traffic
  - Eco-points system
  - 46,000 runs, standard quota
  - 10,400 runs, bonus quota awarded
  
- Bilateral traffic
  - 20,000 permits
  - 2,000 permits as compensatory quota for 6,000 special permits for Austrian freight runs to Koper
  - 8,500 permits for border-zone traffic
  
- Cabotage
  - Prohibited, except for agreed delivery to and collection from combined transport
  
- CEMT permits
  - 64 permits for Austria

Table 35

**Truck on train, 1990 and 1998**

	Number of shipments	
	1990	1998
Munich - Ljubljana	14.872	-
Graz - Regensburg	44.141	11.034
Wels - Villach	-	6.738
Salzburg - Ljubljana	80	7.238
Villach - Budweis	-	5.445
Total	59.093	30.455

Source: ÖVG-Aktuell, 1999, No. 3.

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## **5. Justice and home affairs (ICMPD contribution)<sup>18</sup>**

### **5.1 Introduction**

Slovenia has demonstrated sincerity and progress in its implementation of the JHA acquis, and any difficult problems in the field of migration and border control are not expected.

### **5.2 Visa**

The Government of Slovenia has decided to EU harmonize its visa policy by the end of 1999. The present visa-free regimes with Bulgaria, Macedonia, Romania, Russia and Turkey are in violation of the EU negative list. The new Alien's Law will implement the regulation on a uniform format for visas and the joint action on airport transit visas. The Parliament is expected to pass the new Alien's Law within the following months, or at any rate before the end of the year. The common consular instruction, as required by the Schengen system, will also be included in the new Law.

The 42 embassies and consulates are not connected through a central computer system. In order to introduce the SIS (Schengen Information System), in May/June 1999 the first embassies will be connected, and according to the plans, by the end of 2001, the computer network should have been completed.

### **5.3 Asylum**

The draft Asylum Law is not yet in complete harmony with EU legislation, and some amendments to draft will have to be adopted. The new Asylum Law is presently going through the parliamentary procedure and expected to be passed before the end of this year.

In the field of asylum, the following problem areas have been identified:

- development of an archive and information centre on country of Origin information
- establishment of refugee reception centres
- establishment of integration centres for accepted refugees
- training of interpreters and translators
- training of staff involved in the asylum procedure.

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<sup>18</sup> ICMPD adds: 'This chapter has now been subject to careful scrutiny by representatives of the Slovenian Ministry of Interior and the proposed changes are incorporated in the text. We have attached both the final text, including the proposed changes, and the correspondence received on the matter from the Ministry of Interior, Slovenia.'

The new Asylum Law will remove the present limitation, according to which the asylum application has to be filed within three days after entering the country. The safe third country principle is included, but its definition does not correspond to the 1992 EU resolutions. The principle of a safe country of origin is not included in the draft law. The issue of persecution by third parties (thus, non-state actors), is not dealt with in the draft law and it is likely to be revised to take also this issue into account. If Slovenia takes this step, the country would have gone further in its interpretation of the Geneva Convention than many EU states. According to the draft law a rejected asylum seeker may in certain cases be granted a right to stay for a period of six months, and this period may be extended.

Slovenia has, maybe deliberately, delayed the adoption of the new Asylum Law, taking the experience of certain other candidate countries into account, where the number of asylum applicants radically rose with the adoption of EU conform asylum legislation.

#### **5.4 Migration**

The new Alien's Law, incorporating the EU and Schengen acquis, is expected to enter into force by the end of 1999.<sup>19</sup> It is modelled after the Austrian and German alien's legislation.

An application for entry may only be filed from abroad and there are only limited possibilities to change the purpose of the stay once inside the country. Filing an application inside the country is only possible through a special permission by the Minister of Interior. An immigration quota is determined by the Parliament every two years. Special rules applicable for citizens of the European Economic Area are not yet planned.

In 1998, 45,000 foreigners were resident in Slovenia 5,000 were holders of permanent resident permits and 3500 (in particular, citizens of Bosnia and Herzegovina) enjoyed temporarily protection.

Concerning expulsions, there are problems with regard to some countries in Africa and Asia, as well as Yugoslavia. Since there are no diplomatic relations with Yugoslavia, documents cannot be provided and direct expulsion is not possible. The main reason for expulsion is illegal border crossing, followed by illegal employment.

Persons to be expelled are accommodated under police observation for a maximum of 30 days, when personal documents are prepared and the expulsion is organized. When this time period is over, the person to be expelled has to be released and then she will

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<sup>19</sup> The present Alien's Law is from 1991.

often disappear. The new Alien's Law includes provisions making it possible to detain the person to be expelled for six months, and in exceptional cases, twelve months.

Concerning expulsions, Slovenia does not experience any problems in the EU harmonization process

Slovenia has readmission agreements with 21 states, of which eight are EU Member States, including Austria,<sup>20</sup> twelve other European states,<sup>21</sup> as well as Canada. A new agreement with Hungary is in the process of ratification, which will replace the existing one and is entirely harmonized with the EU acquis on readmission. The agreement with Switzerland does not include a provision on transit arrangement and the agreements with Canada and Romania do not include an obligation to readmit third country nationals. Presently, negotiations are under way with Romania to harmonize the agreement with the EU standards. Slovenia would like to conclude a readmission agreement with the Federal Republic of Yugoslavia. But, the main problem is that the two states do not have diplomatic relations.

Concerning readmission to Bosnia and Herzegovina, a multilateral agreement on transit, to which Austria Germany, Switzerland and Croatia are parties, has been signed. Negotiations on a bilateral agreement on readmission with Bosnia and Herzegovina are under way. The same applies for Albania.

## **5.5 Border control**

The number of illegal border crossing has rapidly increased. In 1998, 13,740 illegal border crossings were detected, involving mainly Yugoslavs, Romanians, and Macedonians. This is a sharp increase in comparison to a total of 7,176 detected cases 1997. In 1998, 441 traffickers were caught. The increase is almost exclusively a result of the crisis in the territory of the Federal Republic.. of Yugoslavia (especially Kosovo). These unfavourable trends will still continue this year, due to the worsening of the situation in this region.

Through amendments to the Penal Code in April 1999, the penalty for smuggling of persons is now heavier than before (maximum sentence is now 8 years of imprisonment).

The number of personnel involved in border control will be increased.

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<sup>20</sup> Belgium, Luxembourg, the Netherlands, France, Greece, Italy, Denmark.

<sup>21</sup> Hungary Croatia, Switzerland, Slovakia, Romania, Poland, Lithuania, Estonia, Macedonia, Latvia, Czech Republic, and Bulgaria.

The vast majority of the illegal migrants head for Western Europe, through Italy. The majority of the citizens of the former Yugoslav states remain in Slovenia. Only a minor part of the illegal migrants attempt to cross the border to Austria.

A twining project with Austria and Germany, 'Establishing Efficient Border Control', is under preparation. The project will assist the Ministry of Interior in preparing the concept for restructuring the Slovenian police in the years 2000-2003 to meet the requirements of the EU acquis (including the Schengen acquis), with regard to personnel, equipment, training, information-telecommunication systems, international air-ports, police co-operation and legislative influences.

As already mentioned, the technical preparations for participation in the SIS are already well under way. All the border crossing and police units are connected on-line to the central database of the Ministry of the Interior, which is structured almost identically to the SIS. But, measures related to data protection still need to be undertaken. A commission on data protection is to be established, and before the end of 1999, a new law of data protection should be adopted.

## **5.6 Criminality**

Slovenia claims that the police work under adequate legislative and organizational conditions, to efficiently be able to prevent and suppress organized crime; prioritizing illegal migration, illicit, drug trafficking, corruption money laundering and tax evasion.

Corruption within the Slovenian police does not present a serious problem. In spite of this, anticorruption activities are carried out.

Co-operation agreements in the field of crime repression (including organized crime), terrorism and drug abuse have been concluded with Austria, Albania, Croatia, Italy, Hungary, Macedonia, Poland, and the Czech and Slovak Republics.<sup>22</sup> Agreements with the neighbouring countries include also provisions on the strengthening of border-zone co-operation. There is also direct co-operation in the form of mixed inspection squads and investigation teams, in accordance with national legislation and provisions of intergovernmental agreements.

The amendments to the Penal Code also imposed more severe penalties in some fields (illegal migration, drug abuse and organized crime) and broadened the use of special methods and confiscation of proceeds from crime, in cases of serious criminal offences.

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<sup>22</sup> Agreements with Belgium, Russia, United Kingdom, Germany, Latvia, Cyprus, Egypt, Estonia, Greece, Romania, Bulgaria and China are under preparation.

## **ANNEX C**

### **Suggestions for corrections of the text 'Impact of the EU enlargement on JHA issues'**

(Letter of Mr. Marko Gašperlin, Ministerstvo za notranje zadeve uprava policije, Republika Slovenija, Ljubljana, to Mr. Jonas Widgren, ICMPD, Vienna, 2 June 1999)

We have studied the part of the said text referring to Slovenia and we are of the opinion that it is correct and that it reflects the actual situation in Slovenia in this field. To make the report more clear also for non-experts in this field we propose that some parts of the text be amended as follows:

In the first paragraph of 5.2 Visa, it should be added that the new Law on Foreigners is already in parliamentary procedure and is expected to be passed in the following months, or at any rate before the end of the year. At the end of the same section it should be added that all the border crossing and police units are connected on-line to the central database of the Ministry of the Interior, which is structured almost identically as the SIS.

After the first paragraph of 5.3 Asylum, it should be added that the new Law on Asylum is already in parliamentary procedure and is expected to be passed before the end of this year.

At the end of the section 5.4 Migration, it should be added that negotiations for bilateral agreement on readmission with Bosnia and Herzegovina are under way. The same applies to Albania. A new agreement with Hungary is in the process of ratification, which will replace the existing one and is entirely harmonized with the EU acquis provisions on such agreements.

In this section it should be added that Slovenia, through amendments to the Penal Code in April 1999, rendered the penalty for the criminal offence of the people smuggling substantially more severe (maximum sentence is now 8 years of imprisonment).

In section 5.5 Border Control, it should be added after the first paragraph that such increase is almost exclusively a result of the crisis in the territory of the Federal Republic of Yugoslavia (especially Kosovo). These unfavourable trends still continue this year owing to the worsening of the situation in this region.

In the fourth paragraph the title of the twinning project should be added: Establishing Efficient Border Control. The goal of the project is the assistance to the Ministry of the Interior of the Republic of Slovenia in the preparation of the concept of restructuring of the

Slovenian police in the years 2000-2003 so as to be able to meet the requirements of the EU acquis (including the Schengen acquis) in the sphere of personnel, equipment, training, information-telecommunications system, international airports, police co-operation and legislative influences.

In section 5.6 Criminality, it should be added that in April 1999 the amendments to the Penal Code came into force, which render imposed penalty more severe in some fields (illegal migrations, drug abuse, organized crime), broadens the use of special methods and means and the confiscation of proceeds from crime in cases of serious criminal offences.