Foreign direct investment in Slovenia

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With the break-up of the former Yugoslavia, Slovenia faces the challenge confronting many countries with small domestic markets for attracting foreign direct investment. In spite of a considerable liberalization of its legislative environment for transnational corporations and the adoption of a law on privatization in November 1992, prospects for foreign direct investment may be constrained by the size of its domestic market, a key motive for investing in Slovenia. Interviews of foreign affiliates in Slovenia suggest that, in addition to market size, other factors, such as increasing profit levels of affiliates, the level of exports and the high level of managerial capability found in Slovenia, are important considerations in the investment decision of transnational corporations. Future prospects for attracting investment depend on the success of Slovenia in becoming transformed into a full market economy, with the entire legal and institutional framework in place, and in re-establishing access to markets outside Slovenia.

The Republic of Slovenia, formerly one of the six Yugoslav republics, legally obtained its independence on 8 October 1991. With a GDP per capita of about $6,200, Slovenia ranks among the medium-range developed economies. Its relative affluence is due to a traditional export orientation that is dictated by the small size of the local market and a comparatively efficient manufacturing sector. Exports of goods and non-factor services amounted to about $5.8 billion in 1990 (almost 50 per cent of GDP) and exceeded imports by about $500 million. About 70 per cent of merchandise exports and imports are transacted with the European Community and member countries of the European Free Trade Association (EFTA), and about 15 per cent with countries of the former Council for Mutual Economic Assistance (CMEA) bloc.

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Compared to other former socialist countries coping with issues of transition into market economies and democratic political systems, the transition of Slovenia was further hindered until 1 January 1992 by its not being an internationally recognized State. In addition, Slovenia is hindered by the loss of the sizable markets of the other republics of the former Yugoslavia to which it had access. The disintegration of the former Yugoslavia and the problems associated with a small monetary area have considerably reduced sales by Slovenia to the rest of the former Yugoslavia, leading to a recession in the Slovene economy. The ensuing decline in industrial production — there was an 11 per cent decrease in manufacturing output in 1991 — is also accompanied by a rise in unemployment and in the rate of inflation. Whatever the economic price for the disintegration of Slovenia from Yugoslavia has been, however, it is likely that the price for not seceding could have been much higher.

Slovene companies have not been able to compensate fully for the loss of markets in the former Yugoslavia, especially in view of the recession in their own domestic market. Nevertheless, some re-orientation of sales towards the domestic market and exports has been accomplished. In the last quarter of 1991, compared to 1990 as a whole, the share of total sales in the former Yugoslavia decreased by 15 per cent, while the share of domestic sales increased by 6 per cent and the share of exports by 9 per cent.[1]

Foreign direct investment in Slovenia: an analytical framework

Not much theoretical work on the subject of foreign direct investment (FDI) in formerly socialist countries of Central and Eastern Europe has been done, especially from the viewpoint of newly emerging small countries of the region, such as Slovenia. We consider, however, the following theoretical or analytical premises as the most relevant for the subject in question:

- The first premise relates to varying circumstances and, henceforth, to different impacts of FDI in former socialist countries of Central and Eastern Europe. According to John H. Dunning (1991), three models of development taking FDI into account are available to former socialist countries, depending on the pattern and pace of restructuring in individual countries. They are the reconstruction model, the developing-country model and the systemic model.

[1] Estimates of the Institute for Macroeconomic Analysis and Development of the Republic of Slovenia.

The reconstruction model, pointing towards widespread involvement of transnational corporations (TNCs), is comparable to the post-war reconstruction period in the Federal Republic of Germany and Japan. According to Dunning (1991), the former German Democratic Republic (and, to some extent, Hungary and Czechoslovakia) is presently following the reconstruction model. It is conceivable that Slovenia could follow the same model. Albania, Bulgaria and Romania, on the other hand, are more likely to fit into the developing-country model.

The systemic model depends on the speed and extent to which a country introduces market-economy institutions, with privatization being an important characteristic. This systemic model can be viewed as a "passport" for inward FDI and it is, therefore, relevant to all former socialist countries. In other words, in spite of similarities in their systemic background, the potential for attracting FDI will vary between former socialist countries and will depend on a number of factors: the speed and extent of systemic changes; the speed and mode of the process of privatization; the location of specific advantages; infrastructural capacities; the development of human capital (managerial, marketing and organizational expertise); and levels of political and economic stability. In general, the role of foreign investors in the economic restructuring of a country will hinge upon the specific competitive and innovative advantages of Central and Eastern European countries.

- The second premise relates to the possible role of FDI in the transformation and restructuring of the former socialist countries. Following Terutomo Ozawa's four-phase development model for Japan (Ozawa, 1992, pp. 15-23), the development course of former socialist countries lies in shifting from a supply-push to a demand-pull orientation. More precisely,

> "given the high level of human capital accumulation and technological sophistication, though unevenly distributed both sectorially and geographically, the region has an excellent capacity to absorb advanced technology from the West and initiate commercial R&D, thereby fostering . . . . the development of consumer-oriented assembly-based industries (Phase III: "Differentiated Smithian" industries) and the growth of "Schumpeterian" innovation-based industries, that is knowledge-intensification of industrial structure (Phase IV) (Ozawa, 1992, pp. 21-23).

In other words, the most important contribution of FDI to the transformation and development of the former socialist countries is the transfer of technology, as well as managerial and marketing skills; the introduction of up-to-date industrial practices and quality control techniques; and spill-over effects regarding local entrepreneurship, suppliers and competitors. In short, because of their ownership-specific advantages and their operating presence in many different countries, TNCs are ideal vehicles for spearheading industrial restructuring in the former socialist countries (Dunning, 1991, p. 39).

- The third premise, relating to the national competitive advantage and the export capability of a country, is especially relevant for those small former socialist countries that have seceded (for example, Slovenia and the Baltic States) and which, as a result, have either lost or seriously jeopardized access to large local markets. The development of those countries will depend on the extent to which they will succeed in establishing themselves as suppliers to Western European and particularly European Community markets. In the medium term, it is not anticipated that access of the former socialist countries to Western European markets will be hindered by any substantial Government-imposed barriers; most likely, existing barriers will be reduced. Natural-entry barriers, however, that is, those barriers stemming from the determinants of the competitive advantage of nations, are likely to increase in the short and the medium term.

Former socialist countries are lagging behind Western European countries particularly with respect to the following: natural resources (uncontrolled exploitation and problems of environmental pollution); financial capital (lack of financial resources, especially in the short term); underdeveloped infrastructure; lack of large domestic markets with sophisticated buyers; weak and loosely connected supporting industries; and management deficiencies and inadequate attitudes towards work (Porter, 1990). Foreign direct investment provides many of the aforementioned factors, especially as regards management and financial resources, and can thus be considered an important means of enabling former socialist countries to reduce natural-entry barriers (Czinkota, pp. 22-25).

The three premises outlined above suggest that, because of the small size of the domestic market, entering foreign, particularly Western European, markets is a *sine qua non* for the survival and development of Slovenia (as well as for other small former socialist countries); for this purpose, Slovenia should develop its national competitive advantage through the development of "differentiated-Smithian" industries and "Schumpeterian" innovation-based industries; FDI is the best means of fostering such a process. To what extent, therefore, could FDI play this role in

Slovenia? The present article tries to provide some answers to this question by analyzing the experience and policy options available to Slovenia in the field of FDI.

The legal and institutional framework for investing in Slovenia

In Slovenia, as a part of the former Yugoslavia, FDI was already allowed in 1967. Until the end of 1988, however, only a specific contractual type of joint venture with foreign partners had been possible. The major characteristics of this *sui generis* contractual joint venture (still possible as a form of FDI in Slovenia) were: (i) relations between parties are of a purely contractual nature; (ii) foreign investment does not change the character of the enterprise, that is, the enterprise does not become a joint-venture company; (iii) investing foreign capital in a domestic enterprise does not give the foreign partner ownership rights in that enterprise; rather, the foreign partner acquires the right to participate in the management of the enterprise and to share its profits; (iv) the share of profits accruing to the foreign partner and the manner of distribution of profits are set out in the contract.

In spite of a gradual liberalization of FDI legislation since 1967, fundamental change in this direction was possible only as an integral part of the overall market-oriented economic reforms launched by the Government of Yugoslavia in 1989. Thus, in December 1988, the new Foreign Investment Law was passed, which considerably liberalized the legislative environment and brought it in line with international standards.[2]

The major characteristics of the legal framework for FDI in Slovenia are:

(a) National treatment: companies with foreign capital participation (joint ventures) and wholly foreign-owned companies have the status of Slovene legal entities, established and operating in accordance with Slovene regulations.

(b) Rights guaranteed to foreign investors: the following rights of foreign investors are guaranteed by the Foreign Investment Law: (i) participation in the management of joint-venture companies; (ii) share of profits in proportion to investment and transfer of profits to other coun-

[2] As a newly born State, Slovenia has only recently begun to structure a definitive constitutional and legal framework. According to the Constitutional Law (Official Gazette of the Republic of Slovenia, 1/1992), the Yugoslav Foreign Investment Law (Official Gazette of the Socialist Federative Republic of Yugoslavia, 77/1988) remains in force until Slovenia's own foreign direct investment Code is passed.

tries; (iii) share in the value of the assets of the company after termination and repatriation; (iv) the laws in force at the time when the investment agreement was signed are applicable; less favourable new regulations may not be later imposed on foreign investors. However, if subsequently adopted regulations are more favourable to foreign investors, they are entitled to opt for them.

(c) Sectors open to foreign investors: all industries are open to foreign investors operating through joint ventures. Wholly foreign-owned companies are not allowed in military equipment, rail and air transport, communications and telecommunications, insurance, publishing and mass media. Legal entities established and registered in Slovenia, regardless of the share of foreign equity, may own real estate.

(d) Forms of FDI: there are three main ways of investing in Slovenia: (i) joint venture with a local partner or a wholly foreign-owned entity; (ii) adding to the capital of an existing local company; (iii) acquiring a share (up to 100 per cent) of an existing local company (in the case of adding to the capital of an existing local company, the foreign capital rests within the company; in the case of acquisitions, the foreign capital used to acquire a local company goes to the Development Fund of Slovenia). Virtually all forms of FDI (equity joint venture; wholly foreign-owned company; contractual joint venture; concessions and build-operate-transfer agreements) are open to investors.

(e) Capital structure: FDI can take the form of cash, tangibles and rights. The law specifies a minimum initial capital for new ventures, which is also applicable to domestic companies. That capital is 100,000 Slovenian tolars (about DM 1,700) for a new limited liability company and 1,000,000 Slovenian tolars (about DM 17,000) for a new joint-stock company.

(f) Approval and registration procedure: any kind of FDI agreement should first be approved by the Ministry of Foreign Affairs, which must decide within 30 days whether the contract conforms with the Slovene constitution and legislation. Should the Ministry not react within 30 days, approval is presumed automatically. During this procedure, the Ministry also approves exemptions from customs and import duties for equipment or other tangibles (which may constitute the contribution of the foreign partner if the contract is signed for a minimum of five years and if the share of the foreign partner is at least 20 per cent). In the case of FDI in a socially owned Slovene company, the contract should be first approved by the Agency for Privatization of Slovenia. In the process of issuing the approval, the Agency takes into account the evaluation of the socially owned company by an authorized evaluator and bids by other potential investors (the acquisition must be announced in public). After its inscription in the Court Register, the socially owned company with foreign participation acquires legal-entity status and the authority to conduct business.

(g) Taxation: with a 30 per cent profit tax rate, Slovenia is among those European countries with the lowest tax burden. The tax base may be reduced by 20 per cent in the case of reinvestments (which actually reduces the tax rate to 24 per cent). Newly established companies receive a tax holiday for the first year of operation; the tax deduction in the second year is 66 per cent and in the third year 33 per cent. Companies starting business in demographically endangered areas receive a tax holiday during the first three years of operation, with a 50 per cent tax deduction in the fourth year and a 25 per cent tax deduction in the fifth year.

(h) Transfer of profit and repatriation of capital: the FDI law guarantees the free transfer of profit and the repatriation of the capital invested to foreign investors. Foreign shareholders are entitled to free and unrestricted transfer of their profits abroad in foreign currency.

Foreign direct investment trends in Slovenia

Until 9 May 1991, Slovenia accounted for 22 per cent of all projects and no less than 27 per cent of the total value of FDI in the former Yugoslavia. The new liberal FDI legislation, together with a favourable official and public attitude towards FDI and market-oriented economic reforms, has contributed to the rapid growth of these investments. In 1988, there were only 44 FDI projects in Slovenia, with foreign capital totalling approximately DM 145 million; by end-1991 the number of FDI projects had increased to 1,296, and the value of invested foreign capital had risen to more than DM 1 billion (table 1). Inspite of the rapid growth of FDI, the importance of these investments to the Slovene economy remains rather low.

Most of the FDI projects are rather small. In as much as 53 per cent of new FDI projects registered during the period 1 January 1989 to the end of 1991, the foreign stake was capitalized at less than DM 5,000; only 4 per cent of these projects were capitalized at DM 5 million or more. The largest

Table 1. Foreign direct investment in Slovenia as of the end of 1991
(Millions of deutsche mark)

Item	Number	Foreign capital invested
Equity joint ventures	692	322.6
Wholly foreign-owned entities	190	17.1
Contractual joint ventures	175	788.2
Total*	1 296	1 307.1

Source: Centre for International Cooperation and Development (Ljubljana) database, based on official sources.

* Total is higher than the sum of Equity joint ventures, Wholly foreign-owned entities and Contractual joint ventures since for the period 10 May 1991 to 7 October 1991 only data for Total are available.

FDI projects are still in the form of contractual joint ventures, which has proved to be a rather attractive form of investment to both foreign and local partners.[3] A contractual joint venture actually acts as a quasi-credit arrangement allowing "in-kind" customs-free imports of machinery and equipment. The repayment of capital and profits of foreign investors is determined in the contract and it is usually assured by a guarantee from a Slovene bank. The foreign investor can actually avoid all risks by using such an arrangement but, at the same time, has no formal ownership rights.

The European Community accounts for nearly two thirds of all FDI in Slovenia. Including member countries of the EFTA, that percentage rises to nearly 90 per cent. Germany, Austria and Italy are the largest source countries (table 2). Traditionally strong economic ties with the European Community have encouraged TNCs from these countries to switch from trade to FDI.

Although the largest FDI projects in terms of foreign capital invested are in the manufacturing sector, most new FDI projects are in business services and trade. Nevertheless, the importance of FDI in services should not be overemphasized, since such investments are modest in scope and scale. Moreover, several new investment projects are registered in a number of activities, including services and trade, but do not implement all these activ-

[3] The average value of the foreign stake in contractual joint ventures established in the period 1 January 1989 to 9 May 1991 was DM 4.9 million, while the respective value in equity joint ventures was only about DM 411,000 and in wholly foreign-owned entities about DM 130,000.

Table 2. Foreign direct investment in Slovenia, by country of origin (Contracts registered in the period 1985-1991[a])

Home country	Number	Share of total (Percentage)	Foreign capital invested (Millions of deutsche mark)	Share of total (Percentage)
Australia	4	0.4	35.9	3.4
Austria	269	26.1	274.4	26.2
France	5	0.5	114.2	10.9
Germany	193	18.7	411.2	39.2
Italy	320	31.0	163.2	15.6
Liechtenstein	9	0.9	5.6	0.5
Netherlands	20	1.9	1.9	0.2
Switzerland	44	4.3	9.7	0.9
United States	20	1.9	11.6	1.1
Other	147[b]	14.3	20.2	1.9
EC	559	54.2	692.7	66.1
EFTA	333	32.3	290.8	27.8
Total	1 031	100.0	1 047.9	100.0

Source: Centre for International Cooperation and Development database, based on official sources.

[a] Data for the period 10 May 1991 to 31 October 1991 are not available.

[b] Of that, 59 relate to re-registration of representative offices of Croatian parent companies into (mostly wholly foreign-owned) subsidiaries.

ities. Because of insufficient knowledge of the Slovene market, many foreign investors want to be as flexible as possible as regards the registration of their industrial activities.

Slovenia as a foreign-direct-investment location: perspectives and policy options

A sample of 11 affiliates in Slovenia were interviewed in order to assess the motives of foreign investors, the competitive position of Slovenia, constraints and possible measures to overcome them. The sample covers eight production affiliates in paper, printing and publishing, chemicals, cement and automobile tires, and three services affiliates in trade and business services. In six cases, both the foreign parent and the Slovene affiliate were interviewed; in three cases, only the Slovene affiliate and in two cases only the foreign parent were interviewed.

Motivation

Foreign investors were found to have a multi-objective approach (for example, growth, profitability, expansion of exports, among others) to investing in Slovenia, stemming mostly from the uncertain economic environment (table 3). Nevertheless, access to the local market was found to be the most important motive for investing in Slovenia. Six of the eleven affiliates interviewed stated that accessing the local market (including other parts of the former Yugoslavia) was their predominant motive for investing in Slovenia. Foreign investors who did not indicate access to the local market as the principal motive considered it as the most important secondary motive.[4]

Foreign investors interviewed ranked "increasing profit levels" as the second most important motive. In previous analyses of motives of TNCs for investing in the former Yugoslavia, increasing profit levels were seldom among those explicitly mentioned (Artisien and Buckley, 1985; Lamers, 1976). In the past, problems and restrictions regarding the repatriation of profits would induce foreign investors to use indirect ways of realizing profits and transferring them abroad. It seems, therefore, that the liberal and clear position of the legislation of Slovenia towards transferring profits abroad, coupled with the low tax rate on profits, have made foreign investors more interested in increasing the profit levels of their affiliates.

Reducing production costs and providing an export base for third countries ranked rather high among the motives of foreign investors. It appears that lower production costs may be an important motive of those foreign investors producing for export, especially in those cases where the Slovene partner already has secured access to foreign markets. For example, one of the motives of Brigl & Bergmeister (Austria) for acquiring a majority share in Vevče Paper Mill has been its market share in Germany and Italy (*Business International*, 1991, p. 9).

In conclusion, until 1991, the term "local market" has meant the entire Yugoslav market. The majority (80 per cent) of those affiliates interviewed felt that the loss of the Yugoslav market would, to a significant extent, reduce the interest of foreign investors in Slovenia. Without preferential

[4] In two cases, upgrading the existing cooperation with the local partner and lower production costs were mentioned as the principal motives for investing in Slovenia. Other principal motives included strategic interests (as an example, the entrance of the home country of the foreign investor into the European Community could affect the production of cement at home; in that case, the home country could then be served from affiliates in Slovenia); acquiring a Slovene company being a more feasible alternative to greenfield investments and enabling direct contacts with local clients were two other motives cited.

Table 3. Motives of foreign investors in Slovenia[a]

Motives	Average score[b]	Percentage share of firms interviewed which regard various motives as important or very important
Getting access for supplying the Slovene (Yugoslav) market	2.58	91.7
Increasing profit levels	2.00	66.7
Enabling exports of parent companies to Slovenia (Yugoslavia)	1.92	58.3
Bypassing tariff and non-tariff barriers	1.67	41.7
Export base for third countries	1.67	50.0
Preserving the existing Slovene (Yugoslav) market	1.67	41.7
Reducing production costs	1.67	50.0
Taking advantage of relatively cheap skilled local labour	1.58	41.7
Export base for home country	1.50	41.7
Reducing labour costs	1.42	33.3
Tax-free exports of machinery and equipment to local partners	1.33	16.7
Reducing transport costs	1.17	16.7
Securing raw materials and intermediate products	1.17	16.7

[a] Assessment of importance of individual motives is based on questionnaires completed by 11 affiliates in Slovenia.

[b] Derived by weighing the number of answers as follows: (1) unimportant, (2) important, (3) very important.

access to the former Yugoslavia, Slovenia would have few possibilities to attract local-market-oriented FDI. However, were Slovenia to maintain some kind of free trade agreement with other republics of the former

Yugoslavia, it would seem that market-oriented FDI in Slovenia might be expected to increase.

As to the issue of how successful the operations of foreign investors in Slovenia are, the interviews gave a rather mixed picture. In three of the eleven cases, it was too early to assess the results of the operations of the affiliates. Only in one case did the results of the operations of the affiliate seem to have met the expectations of the foreign investor. On the other hand, in two cases, the expectations of the foreign investor were not met at all, and, in the remaining cases, the expectations of foreign investors were only partially met.

Only one affiliate was found to be more successful than the parent company itself; the remaining affiliates were either less successful or the degree of success was about the same as that of the parent company. A comparison of Slovene affiliates with affiliates of the parent firm in other countries revealed that the former were more successful than the latter. Of the five firms that responded to the questionnaire, four declared that their Slovene affiliate was more successful.

The overall impression was that Slovene affiliates tend to be less successful than their parent companies, but more successful than other affiliates of the parent companies in other countries. The fact that most of the interviewed affiliates have only partially met the expectations of the parent companies is probably related to the sudden loss of a considerable part of the former Yugoslav market, especially since TNCs have viewed FDI in Slovenia as a means of market penetration.

Location advantages

The international recognition of Slovenia has removed a very important obstacle to FDI in Slovenia. Given an improvement in the economic situation of Slovenia, its mid- and long-term prospects for attracting FDI will, in principle, depend on the success of the Government in "reshaping of attitudes to work and wealth creation; redesigning of the business and legal framework, especially with respect to property rights and contractual relationships; setting up of a market system; and the introduction of macroeconomic policies, which encourage domestic savings but accept the discipline of currency convertibility and an open trading system" (Dunning, 1991, p. 27).

Without preferential access to the rest of the former Yugoslavia, Slovenia would have to compete primarily for export-oriented FDI, for which competition from other countries is high. In three out of 11 affiliates interviewed, the foreign investor had considered other countries as alternative investment locations before deciding to invest in Slovenia. These included other countries in Central and Eastern Europe, which are viewed as major competitors for FDI for Slovenia.[5] Included in the most important location advantages offered by Slovenia were proximity to home country markets, experienced and cooperative domestic partners and the existing export-market shares of Slovene partners.

An assessment of the location-specific advantages offered by Slovenia, in comparison to those countries most likely to compete for FDI with Slovenia, shows that market size[6] and cost factors[7] emerge as equally important location advantages (table 4). Compared to other developed countries, Slovenia ranks very low regarding government intervention and the availability of commercial and legal services. The majority of those affiliates interviewed were of the opinion that existing investment incentives in Slovenia were insignificant in their decision to invest there.

One of the assumed advantages of Slovenia compared to other countries in Central and Eastern Europe is the high level of managerial capability. This is owing to the decentralization of decision-making and the quasi-market system of the former Yugoslavia and to the responsibility given to managers for making marketing and exporting decisions and for overall performance of the company.

The assessment by foreign investors of the abilities of managers to manage foreign affiliates in Slovenia was positive, compared with the abilities not only of managers of affiliates in other Central and Eastern European countries, but also of managers in less-developed European countries and newly industrializing economies. Moreover, most foreign investors were of the opinion that skills and abilities of Slovene managers rank close to those

[5] This is further confirmed by the fact that seven TNCs of those interviewed have affiliates in Hungary and/or Czechoslovakia.

[6] The following market considerations have been quoted: size of local market (including other areas of the former Yugoslavia); a base from which to access other republics of the former Yugoslavia; market-expansion potential (that is, expectations for a quick recovery of the local market); and export orientation of the Slovene economy.

[7] The following cost considerations have been quoted: lower production costs; low transport costs; availability of skilled and low-cost labour; availability of managerial personnel; and a pre-existing level of technology that is sufficiently high to facilitate technology transfer.

Table 4. Location-specific advantages of Slovenia in comparison to alternative investment locations[a]

Location-specific advantages	Average score[b]	Percentage share of interviewed firms which assessed individual advantage as important or very important
Size of market	2.09	63.6
Input prices, quality and productivity	2.09	81.8
Transport, communications and costs	2.18	72.7
Government intervention	1.36	36.4
Control of imports (including tariff barriers) and regulatory framework (tax rates, incentives, investment climate, political stability)	1.91	63.6
Commercial and legal services availability	1.64	45.5
Cultural factors (language, customs and differences in the conduct of business)	1.91	63.6

[a] The assessment of the importance of individual location-specific advantages is based on interviews of 11 affiliates in Slovenia.

[b] Derived by weighing the number of answers as follows: (1) unimportant, (2) important, (3) very important.

of managers of parent firms. Lack of managerial skills of the Slovene staff was, however, found to be high in marketing, with an average score of 2.67 (with a score of 3 indicating that the lack of skills is very important); in general management and in finance, the average score was 2.50, while in legal services the score was 1.83 and in the technical field 1.50.

To sum up, it seems that TNCs believe that Slovenia has several location-specific advantages to offer compared to other locations for FDI. Whether these advantages materialize in the form of higher flows of FDI, however, depends on the transformation process in Slovenia, on the

Table 5. Skills and abilities of Slovene managers of foreign affiliates in Slovenia evaluated by foreign investors[a]

Compared to managers in:	Number of answers	Slovene managers are: Worse	Same	Better
		(Percentage of answers)		
The parent company	7	42.9	57.1	-
Central and Eastern Europe	8	-	37.5	62.5
Other less-developed European countries	6	-	33.3	66.7
Newly industrializing economies	6	16.7	33.3	50.0

[a] Assessment based on interviews of eight foreign investors in Slovenia.

stability of policies towards FDI and on a satisfactory solution of the conflicts in the area of the former Yugoslavia.

Constraints and policy options

Major constraints to encouraging FDI in Slovenia were found to be (average scores reported in brackets):[8]

- Economic and financial instability and problems associated with obtaining financing, including high interest rates, combined with a lack of foreign financial resources (2.64).
- The present phase of transition of the Slovene economy (2.64).
- Political instability (2.55).
- Inadequate development of the legal system (2.27).
- Lack of a privatization law, until recently (2.45).[9]
- Ambiguities about Slovenia's access to the market of the rest of former Yugoslavia (2.18).

[8] Derived by weighing the number of answers as follows: (1) unimportant, (2) important, (3) very important.

[9] A law on privatization was adopted in November 1992.

Other constraints, such as the inadequate accounting system, low profit prospects and lack of investment incentives, appeared to be less important. Only one fourth of the affiliates interviewed considered the lack of technical and managerial expertise as an important constraint.

Some policy options for attracting FDI to Slovenia are:

- Legal system: creation of a clear legal framework; adoption of clear guidelines for the implementation of the privatization law; reorganization of existing companies; and tax system reform.
- Development strategy and economic policy: an export-oriented development strategy coupled with a well-defined and stable macroeconomic policy to reduce inflation.
- Banking and financial system: reconstruction of the banking system; organization of financial markets; provision of financing for investment (including low interest rates).
- Market: improving access to the markets of the former Yugoslavia.
- Foreign investment policy: defining a foreign investment strategy with adequate economic policy support; promoting Slovenia as an attractive investment location; clear and attractive investment incentives.

Most of these proposals do not relate directly to FDI legislation and policy, but to general economic, legal and financial policies and systems. This is very much in line with the viewpoint that the flow of FDI in Central and Eastern European countries will depend, in the first place, on the depth and scope of market-oriented economic reforms (Dunning, 1991). Thus, the success of Slovenia in attracting FDI depends mostly on its transformation into a market economy with the entire appropriate legal background and institutions in place, and re-establishing access to markets outside Slovenia.

When it declared independence from Yugoslavia, Slovenia adopted the Yugoslav Foreign Investment Law without making any change. Slovenia now intends to draft a new law for FDI, envisaged to be more accommodating to the objectives of Slovenia as regards FDI and further liberalizing administrative procedures, while targetting larger FDI projects, for example, through privatization. A combination of a coordinated and a centralized approach seems to be the most appropriate organizational framework for FDI in Slovenia. This means that only one Government agency should be responsible for contacts with foreign investors. Such an agency could be in the form of a permanent commission with representatives from all interested departments, and would become a one-stop agency for foreign investors.

Due to the small size of its domestic market, the objective of economic policy in Slovenia should be to attract more export-oriented FDI. A more aggressive investment-incentive policy, with greater emphasis on capital and financial incentives and the creation of a one-stop investment agency, could help to achieve the desired objective. The recent adoption of a privatization law may also give an impetus to FDI in Slovenia. In addition, the restructuring of privatized companies acquired by foreign investors can lead to their modernization and to an infusion of new technology. To this end, criteria for the sale of local public companies to foreign investors would need to be established and the FDI regulatory framework would have to be further liberalized. Faced with growing competition for FDI in the world economy, these measures are a necessary first step for enhancing the location advantages of Slovenia. ■

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