



Conclusion Paper of the 1st International Conference
on the topic of Foreign Direct Investment in Slovenia

**Comprehensive management of state
competitiveness and credible
leadership as a key element
of economic development**

Organised under the patronage of the President of the Republic of Slovenia, Dr. Danilo Türk

The Concept and Goal of the Conference

- **The FDI Summit 2010 was the first ever international conference on foreign investment in Slovenia.** It evolved from the recent FDI Award of the Year ceremony which encouraged the promotion of positive cases of business internationalisation. The conference was organised by The Slovenia Times and its partners the Ministry of the Economy and the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (JAPTI). They prepared a professional and effective conference platform which connected the know-how and experience of domestic and foreign professionals, and especially of distinguished economists with rich experience.
- **The FDI Summit 2010 was designed as an event free from topical political issues.** Instead, the focus was on a vast spectrum of practical cases and know-how (both positive and negative), mainly from the field of foreign investment and its influence on the economic development of an individual country.
- **The conference's main goal was to overcome bare presentations, analyses and problem-making in the field of foreign investment.** The economic crisis has revealed numerous shortcomings and at the same time numerous opportunities for new approaches and efficient development strategies. But these opportunities are too often neglected in a short-term rescue plan (of rescuing what can still be rescued) both in the private and public sectors.
- **The basis for the conference's conclusion-making was an intentionally provocative problem platform.** This directed participants' discussions towards finding solutions for established problems and considering positive cases. Practical conclusions and guidelines for key government decision-makers were successfully drawn, particularly on how to take advantage of key strategic development potential - so ensuring the start of a new development cycle for Slovenia - despite a lack of domestic investment funds. The lack of funds has been additionally aggravated by the economic crisis and consequent undercapitalised economy.



The President's speech reflected of the mistakes from the past

Can foreign investment form part of a post-crisis development strategy, what is actually realistic competitiveness of Slovenia as an investment destination?

- It is practically a uniform opinion of the majority of economic professionals that Slovenia has responded to the crisis with delay. The imminence of the crisis could have been sensed already at the beginning of 2008, while at the end of 2008 and 2009, the crisis fully surfaced making GDP plummet for a shocking 8 per cent. The short-term consequence was a radical effect on the state's social-benefit outgoings and indebtedness increase, whereas the midterm consequence is a significant limitation of domestic development, investment potential.
- Late responses to the crisis are not as problematic for the long-term economic development as delays in system and structural reforms, slow adjustment to changed economic trends, new international economic order, disorganised and inefficient search for new market opportunities, etc.. In addition, another problem is considerable rigidity and absence of an efficient, flexible development policy.
- The consistent economic growth, characteristic of the 1995-2007 period - which would continue to enable the reduction of the development gap between Slovenia and the most developed European countries and social stability - can no longer be taken for granted. Additionally burdened by the global crisis, the real functioning of the young economic-legal system faces serious challenges. Following the completion of the strategic projects, i.e. the independence, economic transformation, accession to the European Union, euro adoption, Slovenia has stalled in creating its own, post-transition development platform that would exploit the transition's success and strategic development advantages.



Profitable: Panel that looked at the experience of current FDIs in Slovenia is generally good

A Problem-Addressing Starting-Point of the Conference

- An important part of Slovenia's concept of the gradualistic transition to a market economy was a conservative attitude to foreign capital, which gave Slovenia an image of a country unfavourable to foreign investment. In spite of this, some major acquisitions by foreign enterprises took place, however, externally, they were not a part of a complete strategy or foreign investment stimulation in desired sectors. They were merely the realisation of current opportunities or foreign enterprises' bids and/or new owners' wish to make a transition profit.
- In order to improve the country's competitiveness, it is necessary to recognise the crisis's global consequences, changes in international trade, shifts in main centres of economic power, altered behaviour of investors, etc. It is a principal finding that capital has grown very cautious, certain investors have redefined their economic plans, planned investments are carried out more slowly than scheduled, and disinvestment and job cuts are no longer rare phenomena.
- Nevertheless, investors still exist, yet their decisions are influenced by increasingly complex factors. A cheap labour force is not nearly enough, factors of holistic international competitiveness of individual countries are coming into foreground. This competitiveness is becoming more and more connected with the ability to implement sustainable development strategies, educated labour force, quality of environment and living conditions, as well as credibility and flexibility of state administration.
- In 2010 Slovenia has started solving important structural reforms at a principal systematic level to gradually improve competitiveness. In addition, system measures have also been formed to stimulate the competitiveness of branches and regions, intended to accelerate economic recovery and increase the added value in the economy.

The Key Problem-Addressing Question:

“Will the strategies, principal and system solutions pass into the economic reality fast enough and will they be effective? Is the gap between the otherwise good strategies and bad implementation in practice one of the biggest development problems in Slovenia?”



Touchy subject: Moderator Uroš Urbas, Professor Jože Mencinger, Dr Peter Groznik and Borut Jamnik debating the issue of privatisation

Post-crisis Situation of Foreign Investment in Slovenia and the World



Douglas Van den Berghe, *Investment Consulting Associates, CEO*

»What we see among investors today is a lot of uncertainty about policy transparency regarding labour laws, taxation etc. We hear a lot that the main problem is a lack of funds, but in reality we see that funding is there. As I said, there is a lot of uncertainty and suspicion as to what the new directions of governments' policies will be.

On the other hand we see increasing protectionism among national governments, regional and local municipalities, protectionism that is related to the basic question: can the FDI impact economic growth, more jobs, spill over effects and knowledge effects that initially have been anticipated.

So, in that vacuum, if I may call it, it is very difficult for both governments and investors to make long-term decisions. Transparency is definitely the main issue, especially regarding the government. There is money but there is also a major lack of trust that is fostered by lack of transparency.«



Prof. Marjan Svetličič, *Faculty of Social Sciences, University of Ljubljana*

»For a good project there is definitely enough money, of course there is some backlash based on economic nationalism. However, it is important to understand that emotions based on this ground cost money, so we should be very rational and try to use FDI as an instrument for enhancing our own capabilities and not substituting them.

The crisis is also an opportunity. In Slovenia the crisis has contributed, I hope, towards urgent restructuring of economy. One of Slovenia's main problems is timely and appropriate restructuring. For example, let's take Mura and similar low added value industrial companies. The world process of restructuring in textile industry started in mid 70's. It took us decades to realise that we should adjust to global economy more promptly and maybe even ahead of time. We should analyse long-term trends and predict what consumers in the future will ask for.«



Marcus Wild, *SES Spar European Shopping Centres, CEO and ICSC European Advisory Board, Chairman*

«We as a big retailer are mainly financed by cash flow from our business. That is why we have been able to get mortgages on our real estate as we are not affected by the lack of trust. This was obviously the global crisis of credits and lack of trust, it is not the crisis of consumption, and the latter is just the final result of the first two.

Because of that we are more careful in investing. In fact, we restructured our plans based on the expected cash flow.«

Conference Message Highlights



Eng. Ahmed El Sewedy, *Elsewedy Electric, CEO and President*

»If we look at the differences in investing before and after the crisis, we can say that prior to the crisis almost every investment was making money, whereas after the crisis everything is completely different. Before the crisis everyone was thinking how to expand capacities, invest in new buildings, equipment, while after the crisis we are just trying to survive. So in the last year we (El Sewedy Group) practically didn't invest, we are just trying to deal with the capacities that we have at this moment.

The point that we are now focusing on in Iskraemeco is that we believe that in the next years the big problem worldwide will become energy, especially in developing countries. And if you want to save energy, you must measure it, so we are trying to develop new technologies, superior to our competition. We are looking for new opportunities and new markets, especially in the Middle East and Africa, where we expect growing demand in the energy sector.«



Practices of Attracting Foreign Investment: Germany Slovenia



Robert Herman, Investor Consulting at Germany Trade and Invest, Managing Director

“We promote Germany as an attractive business location with non-discriminatory and incentive-oriented legislation, so this is very important: all opportunities that are available for German companies are also there for foreign companies - it’s all the same.

Very important is that we want to attract so-called start up companies, we really take them by hand and try to explain what it means to be in Germany, to understand the legal framework, to understand what the best locations are, what the best partners would be etc - a real detailed work with potential investors is a guarantee for success.«

It is really important that we have industry experts as we want to know and analyse what is happening within industries. We don’t focus on everything as we have limited resources, we only focus on sectors with growth and added value, not used markets«



Alfred Kiler, Directorate for Foreign Economic Relations, Ministry of the Economy, Director General

»The president of the Republic in the opening speech said that before he came to this conference, he read an article about Slovenia being in a stage of stagnation. I will start a little bit differently - we are currently in the stage of a slow recovery after the global economic and financial crisis that has had a strong impact on the FDI in Slovenia

But the FDIs are definitely the priority of the current government activities. And what has Slovenia to offer to a foreign investor? We have to point out four Q’s of Slovenia as its main qualities: quality links to regional market, quality workforce, quality infrastructure and quality of life«.

JAPTI Example



Igor Plestenjak, JAPTI, Director

»It’s difficult to measure efficiency of promotion inside our agency or economic diplomacy in general - we use general economic indicators but also you must understand that our resources are very limited. For example, we have one man working to cover the whole Russian or Brazilian market, this is a problem - from that point we are very efficient.

Also, in all these years we are coping with the problematic perception of Slovenia’s public sector by which it is believed that the reorganisation of agencies and other institutions brings more efficiency. Every time we find a problem, we want to solve it with some kind of reorganisation. My personal view is that instead of constant reorganisation we should consider the consequences of such changes.«

Act on Prekmurje Region

**Andrej Horvat, Cabinet of the Prime Minister of Slovenia,
State Secretary**

»The problem in Slovenia is that every region wants to have their own development law or platform with some special incentive instruments, and based on that they obviously want to receive some money from the state.

What we are trying to do is not to introduce special laws for every intervention which is needed, but we are trying to build some kind of early warning system on the legislation level. I think the new general law will be adopted by the end of the year and the possibility of intervention will be incorporated in the new law. For example, every region or an area which will face unemployment higher than 17%, will receive special help, not just in the form of money, we will try to support regional management to cope with the problems«



President of the Republic of Slovenia, Dr. Danilo Türk with Dr. Peter Kraljič, Brane Krajnik and Rudolf Klötscher

Experience of Foreign Companies in Slovenia



Christof Droste, Hella Saturnus Slovenija, Managing Director

“One of the strongest and on the other hand weakest parts of Slovenia’s competitive advantage is high labour force loyalty. It’s good to have loyal workers but in combination with very low location flexibility, it’s very difficult to find people to go for two or three weeks to work in Germany, almost impossible to go to China and live there for maybe one year.

But investing or being competitive as a country is not just about low labour cost. The whole Europe should think about other costs, costs of public administration, infrastructure, education etc, all those costs together represent country’s competitive position. I think that simply moving the production to China or India is not the answer. Europe should not move all know-how and production to emerging markets and leave the structural problems of European economy to our children.”



Cvetka Selšek, SKB President of the Board of Directors

“It’s very important that we managed to introduce the business practice of our strategic owner Societe General. Very efficiently we managed to introduce new products which are excellent. We also received good funding which was one of our best advantages, because they (Societe General) immediately supported us with long-term resources and, of course, we started to use so-called synergies in the wider region of South Eastern Europe.

If we are talking about doing business in the last two years, when we had quite a big turmoil as a consequence of the crisis and some bad practices in the banking business in Slovenia, especially on the field of debt management and bad lending practices, we, as part of the Societe General group, were not involved in that so this highly increased our image and I am quite sure that we will finish this year as one of the most profitable, if not the most profitable bank in Slovenia. Our cost of bad loans is less than half the average in Slovenia as a result of our very prudent risk policy which is based on Societe General’s policy of best practices”



Aleš Bratož, Revoz, Chairman of the Board

“We in Revoz export approximately 99% of our production, so short term incentives in the Slovenian market would not have big impact on our business. For us in Slovenia it is important that we have a stable business environment.

There were some bad and good decisions of the government during the crisis. Bad is certainly that the government helped more or less companies with big social problems, everything was oriented on social policy, there was not enough focus on improving business environment and system flexibility.”

Conference Message Highlights

Rudolf Klötscher, BSH Hišni Aparati, CEO

“Very important experience for us in Slovenia was that you should appoint the right team with full responsibility, look for the right people and give them responsibility. It’s important that they (employees) can also create their own experiences, don’t make the room too narrow for them; give them the freedom to develop the business.

We invested a lot in the last years in contacts with the Universities in Slovenia, because we want to contact the students at very early stages of their study, to make them more familiar with our company so that they can realise that our company could be interesting workplace.«



Csaba Toth, TriGranit Management, CEO

Our business is very special as is every business. In our case, we have a joint venture with the public company, Slovenian Railways, and doing business with that kind of a partner is always complicated. However, we would expect more consistency and predictability - as you know, in just one year four CEO’s of our partner have changed, so it is very difficult to implement the project in an efficient way.«,



Investment in Modern Public Transport Infrastructure as the Core of the New Development Cycle and a New Development Paradigm?



Patrick Vlačič, Minister of Transport

»We are a small country and our investment capacity is limited, that is a problem especially in the area of infrastructure. I think that we made a big mistake when we started to build our highways in 1994. If we would have chosen a different model to finance the project, for example the concession model or public private partnership, today we would have a good highway infrastructure and good railways as well.

One of the rare competitive advantages of Slovenia is the strategic location and the one we want to use more efficiently in the future. We think that Slovenia could become a supporting logistical platform for the whole of Europe. The project of the Logistics Holding which was presented recently is the step in this direction, but this should be understood as the project of the Republic of Slovenia, not just as the project of one company, Slovenian Railways or Luka Koper.«



Hartmut Mehdorn, Former CEO of Deutsche Bahn

»Slovenia has quite a way to go to fulfil crucial investments in infrastructure, but this must be a proper infrastructure in accordance with market needs. Investments in infrastructure must not become a fulfilment of the short-term plans of some mayor or some city which has nothing to do with business - investments should not be a matter of prestige or some other irrational reasons. It is clear that it is very difficult for the government, not just in Slovenia, to fight for strategic infrastructure projects connected with railways. If you invest in streets, bridges etc, you have an immediate impact on elections; if you invest in trains and railways there is no short-term political effect, this is a strategic long-term investment in economy with no immediate political impact.

I think that one of the biggest problems of Slovenia is that you don't have a clear list of priorities, there is no clear voice or general opinion on what should be done!! The government, or in this case the minister for transport, is talking with a big number of people, experts from all regions and at the end of the month he comes home and he is puzzled as everyone wants to have his own local project (implemented) and if a politician has a possibility to do nothing, maybe from his point this is not such a bad decision.«

Conference Message Highlights

Alan Moore, Chescor Capital, CEO

»I think that in Slovenia you have a lack of clear investment propositions. If you want to go to a potential international investor and ask him to invest money here, you must be very clear about the way how the money will be spent, clarity on the structure, clear framework of the project, this is how the revenue will be generated and this is the way how we are going to get the money back. Because what investors are looking for in the first place is how they will get the money back!

I think that there is quite often a lack of sufficient preparation of transactions and as a result there is a danger that you end up playing with the market, testing the market and if you do that you end up with the investor fatigue - investors will probably response once, maybe twice, but the third time they will say hey guys, you are not serious!«



Miran Gajšek, Municipality of Ljubljana, Head of Urban Planning

»In Slovenia we are talking a lot about regional policy but actually in reality we are atomizing our resources and power into 210 municipalities and that is not good and efficient. From my experience it is very clear that a small country should concentrate forces and potentials into one, two strategic projects, not ten or twenty. For example, our government every week has another project and this is not very good.

It is also very clear that we have to improve or speed up the system of spatial planning. It is very important to clarify the ministry of the environment and spatial planning - often in the newspapers the journalist use just the environment part, but the planning part is very important from economy's point of view, this is somehow systematically forgotten and this problem should be addressed very quickly.«



State Ownership and National Interest



Prof. Jože Mencinger, *Economic Institute at the Faculty of Law, University of Ljubljana*

»I am not against FDI, I know that they create jobs, but if they only create jobs in let's say 20 years, everybody will just be labour force and labour force is very similar to raw materials and you are not deciding any more what is happening in your country. It is also very clear that there are some companies that they would not exist without foreign investors, I am just against the »religion« that FDI's can solve all the problems.

I don't understand why everybody is so eager to define what is the price of something and to sell something, for example I own an apartment and it doesn't matter what is the price, I don't want to sell it.«



Dr. Peter Groznik, *Faculty of Economics, University of Ljubljana*

»If we are talking about the quality of management of the state-owned companies, we can believe in some miracles, but I don't believe that politicians or any other public bureaucrat can be a decent manager, so I don't think that state should remain active and as dominant as it was until now inside the ownership structure of the Slovenian economy. I don't want to live in a country where 18 years from now the state will still be the largest shareholder of the biggest bank. As a taxpayer and I think that I pay too much tax for this country, I am deeply concerned about the way that some politicians or ministers are able to responsibly manage our money, no matter in which sector or branch.

I think that there is foreign capital waiting on our borders for the proper investment projects, the problem is that we are resolving our crisis for such a long time, we haven't done almost nothing in the last years. I am afraid that we will be forced to sell some assets at low prices, but it would be better if we would restructure at the right time, clean our house by ourselves and sell something at higher prices now, if we really have to. The real problem is that really nothing happened in the last two years, the most important question for the government was who will sit on the boards of the state companies.«



Borut Jamnik, *Kapitalska družba - KAD, President of the Board*

»I do believe in decent politics and I do believe in a decent ownership of the state, there are not only indecent managers in state-owned companies, you can also see good cases of managers in state companies. In this moment the majority of blue chips of the Slovenian economy are at least partly state-owned and they are all in relatively good position and these are stable companies.«

The State of the FDI Environment in Slovenia - What are we Doing Right, and What are the Opportunities we Missed?

Dr Peter Kraljič, Director Emeritus of international management consultancy firm McKinsey & Company, was one of the biggest names at last month's FDI Summit in Bled. Few are better placed than Kraljič to comment on the state of foreign direct investment in Slovenia and his essential message is a simple one: there is more to do.



I think also that our agency JAPTI, which is really trying to do its best, is undernourished in terms of the number of people resources and the hierarchical position.

At the conference there were four main points. One was the increasing openness of Slovenia for FDI as expressed by President Tuerk, Minister Radić and also Minister Vlačič which is a positive movement - they understand that we have to be open to FDI and be more proactive in it.

The second point which was important was that most of the foreign investors who were at the conference stressed the same advantages of Slovenia, the two main ones being our people and our geographic location and of course, the connection of Slovenia to the markets of south eastern Europe. These are the strengths we should exploit even more. Quality of life and the beauty of the country is something nice but it is not decisive.

The third most important point was that those investors who were there, like BSH, Hella Saturnus or Renault, were all satisfied with their investment. Even though we are going through a recession, they have all increased workforce, and they have even established some of the development and competence centres in Slovenia - the same goes for Lek which was not represented at the FDI Summit (the centre for biotechnological development of Sandoz is in Slovenia).

But the last very important point is that Slovenia also invests abroad, which is a sign of the strength of our industry.

These are the positive things which are encouraging. However, what also came out were the things which were not so good such as lack of support in terms of subventions, incentives, tax reductions and so on, where our legislation could be changed. I think also that our agency JAPTI, which is really trying to do its best, is undernourished in terms of the number of people resources and the hierarchical position. If they claim they have only one man to cover Brazil, it is clear they have underdeveloped resources.

If we look at an overall picture of FDI in Slovenia we did receive FDI, quite a number of them, but not as much in relative terms as some other Eastern European countries.

The main reason for that is that we did not attract any major greenfield investments, though we attracted a number of investments where our corporations have been acquired.

If we look at an overall picture of FDI in Slovenia we did receive FDI, quite a number of them, but not as much in relative terms as some other Eastern European countries. The main reason for that is that we did not attract any major greenfield investments, though we attracted a number of investments where our corporations have been acquired. We had a number of brownfield investments such as Lek, Bosch Siemens, Renault or Hella. But we did not have any FDI into new plants such as automotive plants, or semi conductor plants which was the case in most central and eastern European countries. One of the reasons for that is there were not enough incentives, not enough government support, and maybe our approach was not the best.

If you want to attract FDI, you also have to make your immigration laws more flexible. It is sometimes very difficult to get a visa to come to Slovenia and work here. There was not enough understanding on the importance of FDI, particularly the greenfield investments. Such investments bring new money, new skills, and new technology. Looking at the criteria for the global rankings, Slovenia is, in this context, far behind because the transfer of the new technology to Slovenia through FDI was very low. This is one of the things that Slovenia should pay more attention to in the future though the time is almost over for attracting a big FDI, because the waves are now moving to developing countries east of us, and Slovenia probably missed the boat there.

Experience of current foreign investors

Those already here have also voiced some criticism at the level of support they find in Slovenia. For example Hella Saturnus invested a lot and created a lot of jobs but did not qualify to get some justified subventions for the creation of some 400 jobs because of the way the current law stands. Bureaucracy still exists in Slovenia and there are some laws which are not open to FDI or even for the protection of foreign investors.

There are also some FDIs that didn't go so well like those in the banking sector. Some, like Societe General, went very well. But in the case of KBC which invested in Ljubljanska Banka (NLB) this is not an example of how you treat a foreign investor because too much uncertainty was created due to often contrary decisions of our government. Right now nobody knows whether KBC will stay or not, whether a new partner will come in or not. This is an example of the lack of clarity of decisions on our government's level as to how to deal with big foreign investors. This reduces the credibility of our country as such and is bad.

Quality of workforce

The qualified workforce in Slovenia is good but scarce and that may be one of the reasons we did not attract major investments in productive new sites because we didn't offer neither a huge new site - the automotive plant needs 200 hectares with good infrastructure - nor both skilled and unskilled labour. Unskilled labour we may have, but skilled labour is very scarce because we lack engineers, technicians and so on. On the other side, our immigration laws are not very attractive for foreign workers. There is a culmination of counter-productive elements we should have understood and improved.

I think we should look to importing foreign workforce because even many Slovenian companies independent of FDI claim that they have difficulties obtaining qualified, technical staff in particular. It is a vicious circle in trying to attract skilled foreign staff because of tax laws as well as immigration laws. If you put a freeze on the level of salaries, the best people will go where they get more money. That is one thing. The second is that we do not channel our younger generations towards education in technical areas, like electric engineering, machinery, metallurgy where there is scarcity of people so that we would create enough technical workforce or scientists to have an industry and services that is higher value added - you cannot do this without education. Given our demography, which is not very positive, we will be bound in the future to import people, both qualified and unqualified. As long as we have immigration laws as we do now, we will not be attractive for those people. Sometimes we don't even pay them which is a criminal case.

Government attitude towards FDI policy

Unfortunately, government representatives were at the FDI Summit for a very short time and thus missed the content of presentations by the top executives from Slovenia and abroad who were there. They would have had to stay for the whole day to get the whole picture. Our ministers have a tendency to come there where the photographers come but not when the substance is being discussed. That is a big mistake.

I am afraid that our ministers don't think coherently because, if you look at it deeply, our ministries are split in an unreasonable way. They have different yet overlapping responsibilities - one is responsible for the immigration law, probably done by the foreign ministry; one is responsible for education; one is responsible for labour market; one is responsible for the economy. Then there is JAPTI attached to ministry of economy; and economic diplomacy, attached to the foreign ministry. So there are at least five or six different ministries that should sit together and discuss what are the things that they should improve together - I am not sure they do that well enough.

Minister Gaspari said (at another conference in Bled) that the major task of the government is to reduce bureaucracy, simplify many processes and ensure better horizontal coordination across ministries which is a sign that there is not enough coordination and not enough cooperation at the ministry level right now.

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Our railway system is very old, needs a lot of investment as it has been neglected so far, and there is no clarity yet on what to build, how to build, and when to build and, also, how to finance it.

There is too much uncertainty, not enough preparation. This is one of the reasons that, while the money is there, it is not coming to Slovenia because money goes where the investors see a clear return.

Mr Pahor and his government, however, are the first government to talk about competitiveness which is a good sign.

Logistics: one of the 4Qs - where are we now, where are we going?

Next to people, logistics is our biggest Q. There are three different things when we talk about logistics. One is the logistics position as such which is an advantage for Slovenia - we are at the crossroads of north-south-east-west. Additionally we have a port - it is not the biggest one, but it is a good port. This is the geographical advantage.

Second is the question of infrastructure. We have a lot of roads and it took us almost 20 years and many billions of euros to get them. Though the roads are not completely finished, the cross is finished. But there are still many roads missing - going north to Carinthia, down to Rijeka or Gorizia through Idrija so there is still work to do. But the roads are improving.

Our railway system, however, is not very good. It is very old, needs a lot of investment as it has been neglected so far, and there is no clarity yet on what to build, how to build, and when to build and, also, how to finance it. In this context it is a question of getting the financing from outside. We have heard at the logistics panel (at FDI Summit) from Mr Moore, who is representing a company that invests in infrastructure, that there needs to be a good project for investors to be interested. Unfortunately, Slovenia is not known for being able to present attractive projects to foreign investors. There is too much uncertainty, not enough preparation and so on. This is one of the reasons that, while the money is there, it is not coming to Slovenia because money goes where the investors see a clear return. Our railways have to be improved otherwise we will miss one very important element of our future progress.

The third question is the question of our logistics companies which are taking care of the flow of goods. That is starting with the port, railways, and of course all the transportation companies like Intereuropa. Here the first question is how efficient are they as individual corporations, do they have the right strategy, and also the right scale and scope because they should be profitable, efficient and having clear solutions. As we heard from Mr Mehdorn: "what the clients are looking for is a logistics solution".

The next question is - that was the big discussion about the idea of the Logistics Holding - would it make sense to bring them together into one company or not. These are two completely separate discussions.

Logistics Holding - the worst case scenario: doing nothing!

The question is still do you need a holding for that or do you need a solution where these three companies (and other transportation companies) can cooperate better and have process-wise a better solution. Or do they need organizationally to be brought together, as a structural solution. Again, there are many people against the structural solution as there is no clarity yet as to how it will work and what are its benefits and as long as it stays that way, there will be opposition to it. My advice would be not to lose time on this discussion but to focus on how to turn around those companies like Intereuropa, Luka Koper and Slovenian Railways - which have been making losses - to bring them to profitable level and improve their efficiency, and the solutions they offer. Then the next step should be to look at the possibility of bringing them together and how to bring them together, whether it is a structural solution or a process solution. These questions still remain.

Competitiveness - what does it mean in Slovenian terms?

There are several levels of competitiveness and the key is to ensure competitiveness across different levels. In Slovenia we can first influence the competitiveness on the macro level which is the state level. This is where we dropped 20 places - from 32 to 52 out of 60 countries ranked. Mr Pahor and his government, however, are the first government to talk about competitiveness which is a good sign. However, the task of the

government would be to look at what are the elements which are dragging the country down. Government has the opportunity to improve the labour market flexibility, as well as our financial market - our banks are not the best and we have very little venture capital. It is also a question of how easy is it to start a company and make business in Slovenia - we are not very high on that level either. Then the quality of our state-owned companies and how we manage them is definitely another element. In that context there is also the whole question of the supervisory boards, which are not very good. It is also a question of education. Finally, it is also a question of investment into new products and services where we do not fare well either - we invest 1.5% of GDP, we should invest at least 3% if not 4%. So here is where the state can do something.

The next level where we could also do more is what I call a mezzo level - our sectors and our regions. The good example is Pomurje where now there is a major government effort led by Mr Horvat which is a good thing. However, it took us years to understand that you need a clear regional concept to accelerate growth and thus prevent unemployment in that region. More of that strategy would be needed, for example in regions like Corinthia. The same is happening with our clusters. The positive example is our automotive cluster which is being increasingly financed with the help of state banks like SID, but more of these clusters should be established in Slovenia. They have been conceived by the former minister of economy, Mrs Teja Petrin, but they never came fully to life.

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The next level is the micro level. Here the individual companies have to do more but they are also sometimes hampered by bureaucracy; high labour costs (not direct cost but the social costs of labour); the question of workers' skills; availability (such as engineers); and training of the people. Hence, the companies could possibly cooperate better because most of them have subcritical mass. They are not so big to go for an international expansion. Competitiveness of our companies on micro level is very important. We have some good examples - Krka, Trimo, Kolektor, Helios, Hidria, Gorenje - but more are needed.

The last level is the individual level, or as I call it the nano level - the skills of individual people. After completed studies, do we still continue to invest into improving the skills and training our people or not? We need distinctive knowledge and skills, as people are our only asset

State-owned companies and privatization

I don't mind if some companies are state owned as long as the state behaves as a responsible owner. A responsible owner defines the direction but then ensures the continuity of leadership and does not change leaders every year or every second year which is what Slovenia is doing. This is the biggest handicap of many Slovenian companies including those within the logistics sector - Slovenian Railways, Intereuropa and Luka Koper all suffered from the frequent changes of top management over the last decade.

If the state wants to remain the owner of certain companies then it should define which sector and which companies and why it is of a strategic or state interest to keep these companies in Slovenia's hands. This definition is not clear because there is no consensus in the government what to do with some companies. One example is that our ministries have a different opinion what to do with Ljubljanska banka - should we privatise it fully or not; should they expand internationally or not. The same goes for logistics or energy sector. So if there is no consensus in the government, nothing will happen.

Just look at what is currently happening in the energy sector. The old government wanted to have two energy pillars, while this government wants to change it back again to one pillar as well as changing the whole leadership. Nobody understands the concept any more. Also, look at the situation surrounding the costs of building the thermal power plant Teš 6 - some people say it will cost EUR 1 billion, some say EUR 1, 2 billion, the numbers are going up and down all the time. But this should be easily calculated, as an analysis of the project must exist and I don't think it is rocket science to define a good business case for investment into such an important unit. This is again an example of

lack of consensus and lack of clarity as to what is our industrial policy. Some people say that we do not need an industrial policy but I think Slovenia does need it. If Japan, a much more developed country than Slovenia, has an industrial policy, why shouldn't Slovenia? The French also have an industrial policy. Apparently our current government is working on it but after 20 years of independence we should already have one, including the perspective on FDI which was our starting point.



The Final Conclusion - Guidelines for Political Decision-Makers

1/ Almost all the participants, domestic and foreign professionals alike, agreed on the four main strategic advantages of Slovenia. These have been incorporated in a large number of theoretical starting points for Slovenia's strategies, and serve as a foundation of the country's promotion as an attractive investment destination - the "Basic Competitive Platform - 4Qs (qualities) of Slovenia":

- Quality of life
- A strategic location and quality link to regional markets
- A quality infrastructure
- A quality workforce

2/ From the distinctly defined advantages of Slovenia, it is possible to derive logical basic guidelines for creating a development strategy that would put potential competitive advantages into practice:

- The development of modern and sustainably-oriented logistics in the broadest sense of the word (combination of different types of logistic and auxiliary services) that would support wider Central European trade and production flows and their links to emerging world markets (China, India, Brazil, etc).
- Formulating a flexible and adaptable system of state and regional administration that would enable Slovenia to make the most of its strategic advantages and provide adequate concentration and direction of available development resources (domestic and foreign).
- The development of finished high-quality tourist products that would take long-term advantage of Slovenia's natural treasures and its geographical, climatic, gastronomic and cultural diversity.
- The development of high-quality, niche products and services based on know-how and the highly skilled workforce. These do not pose the midterm risk of moving production into regions with a substantially cheaper workforce.
- The development and application of sustainable technologies in the public and private sectors ensuring the preservation of one of Slovenia's key strategic advantages - quality of life.
- The controlled discontinuation of low-quality production that is solely based on a cheap workforce - in the long term, this would reduce the risk of social deprivation in certain social strata.

3/ As it is evident from the practical experience of development in past years, the development policy in practice has often failed to follow the country's defined competitive advantages. As a result, the four qualities of Slovenia have been poorly utilised. There have been deviations due to the atomisation of available development resources. To a large extent this has been the consequence of political-economic organisation, mostly the irrational use of the government's development resources and to a certain the consequence of poor corporate management of commercial organisations in which the government is a majority or partial owner.



The Final Conclusion - Guidelines for Political Decision-Makers



4/ On the basis of the stated facts and theoretical groundwork by Peter Kraljič PhD, we are able to define six levels of competitiveness, the management of which is in fact a dynamic development plan which enables the implementation of a new development cycle:



- **Giga-competitiveness** - this competitiveness covers the creation of conditions for activities of countries at the global level; Slovenia's influence at this level is very limited (e.g. the WTO, the World Bank). Nevertheless, the involvement of state leaders and the formation of standpoints in these institutions are important because they provide the country's basic credibility.



- **Mega-competitiveness** - this is the level of creating conditions for competitiveness. Here Slovenia has a bigger influence (European Union). It is still limited, but with clear and national strategies, coordinated positions, and the creation of decision-making alliances within the framework of EU institutions, it enables the transfer of specific interests into the activities of transnational institutions.



- **Macro or state competitiveness** - this is the level where an individual country and its key decision-makers have the most influence and authority to directly create conditions for the country's development and its competitiveness. This is determined by the quality and activities of the economic-legal framework of the country (efficiency and coherence of legislation, functioning of the judicial system, the labour market, spatial planning, etc.); the implementation of development policies in strategic areas; the development of infrastructure, energy, etc; the daily activity of Slovenia's government; the efficiency of corporate management and the credibility of state-owned enterprises, systems and institutions, the civil service, agencies, offices; the orientation of the educational system in accordance with the economy's needs and so on.



- **Mezzo or regional competitiveness** - this is an important upgrade of state competitiveness, very dependent on the link between state and regional administration. It is of vital importance for directing regional development projects and preventing development deviations, i.e. the development stagnation of individual regions.



- **Micro or entrepreneurial competitiveness** - is the most important in practice in the sense of taking advantage of state and regional competitiveness which establish the grounds for entrepreneurial activity (forming credible leadership, strategies, ownership structures, employment policies, innovation, a connection with the educational sector, etc). In countries where it has an important influence on the management of enterprises, as in Slovenia, it is often hindered by bureaucratic and politically motivated actions of owners, which decreases the quality of corporate management.

- **Individual competitiveness** - the last, but in certain cases the most important link in the chain of competitiveness covering coherence of the educational system with the economy's needs, lifelong learning, mobility, innovation, etc. This level of competitiveness can be influenced to a great extent by the country itself with suitable stimulation of lifelong learning and entrepreneurial thinking in all segments of the population.

Putting Theory into Practice

The FDI conference raised and analysed many of the most crucial issues for the further development of Slovenia, particularly in terms of post-crisis recovery. On a global scale, the recovery has turned out to be slower than expected by many professionals. When discussing necessities or non-necessities, efficiencies or inefficiencies of foreign direct investment (FDI), we need to overcome general and often unproductive debates on the national interest, the different effects of privatisation, the favouring of domestic owners, and the potentially negative features of foreign capital.

It is crucially important to treat the FDI issue in a rational way without ideological or other prejudices. Furthermore, it is important to evaluate both positive and possible negative effects. We must take into account that our country and economy will prosper only if we are able to efficiently exploit the positive effects and prevent the negative ones in the best possible way.

In addition, it is the task of the government to include foreign investments in Slovenia's development strategy; to create conditions for taking advantage of the added value that often cannot be exploited by us due to our limited development resources. An important element or fact which cannot be overlooked is that Slovenia simply does not have sufficient capital to implement all necessary projects, ranging from transport infrastructure to energy and so on. Besides, a basic problem is surfacing in the Slove-



Organisers of the conference, Tilen Majnardi and Brane Krajnik, CEO of The Slovenia Times

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nian economy, namely the undercapitalised condition of numerous enterprises. Consequently, the question as to where we will obtain new development resources needs to be answered. Nowadays the government and current owners are often too weak.

Therefore, it is our duty in the future to listen more attentively to foreign investors, both existing and prospective, who have recognised Slovenia as a potentially very good business environment. Foreign investors frequently stress the general attractiveness of Slovenia and its undisputed qualities. On the other hand, they also frequently and clearly single out disturbing elements, such as the transparency of functioning of government institutions and agencies, predictability and stability of processes, as well as the governance of the country at all levels.

Apart from consistency in strategy and credible project presentation, the following is repeatedly being exposed as problematic: complicated legislation; the extent of bureaucratic procedure; poor functioning of the legal system, especially the pace of resolving individual cases; eliminating anomalies. On the world charts of competitiveness these issues keep pushing us down to places which do not suit a country aspiring to be ranked among the most successful in the European Union.

Slovenia's success in the post-crisis period will depend on a properly defined balance between citizens' social security and the aspirations of domestic and foreign businessmen for better competitiveness. It needs to be highlighted that competitiveness cannot be viewed solely from the perspective of work costs - such a perspective can bring us to the edge of social stability, and is not a sign of a quality development policy. The experience of the most successful European Union countries clearly shows that their competitiveness is based on the efficient functioning of a government in the broadest sense, contemporary infrastructure, quality living, and the ability to adapt to modern development trends.

It is a fact that the foundations for Slovenia's new development boost already exist, and numerous issues are being addressed. Our experience tells us that we are capable of developing good strategies with the right solutions. Therefore, the biggest added value in the coming years will be if we are able to put our theoretical knowledge, as well as domestic and foreign experience, into everyday practice.