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## The Role of Economic Diplomacy in Increasing the Value of Exports to Mediterranean Countries – The Case of Slovenia

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### Abstract

*This paper examines the role of economic diplomacy, which is the activity of managing economic relationships between countries, in increasing the value of exports to Mediterranean countries in the case of Slovenia. Additionally, it also examines the role of economic promotion (especially trade promotion), which is one of the main activities of economic diplomacy, in increasing exports to the aforesaid countries in the same case. However, neither economic diplomacy nor economic promotion are panaceas for economic mismanagement, which is one of the main reasons for the current financial and economic crisis in Slovenia and certain other countries, mainly in Southern Europe.*

**Keywords:** economic diplomacy, economic promotion, foreign trade, Mediterranean countries, Slovenia.

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### 1. Introduction

Diplomacy is the activity of managing relationships between countries (see, e.g., Freeman, 1997; Berridge & James, 2001; Rana, 2002; Jönsson & Hall, 2005; Barston, 2006; Bolewski, 2007; Jazbec, 2009; Berridge, 2010; Pigman, 2010; Siracusa, 2010; Hamilton & Langhorne, 2011; Bjola & Kornprobst, 2013; Cooper, Heine & Thakur, 2013). There are several types of diplomacy, some of which are more important than others. One is economic diplomacy, which is the activity of managing economic relationships between countries (see, e.g., Bergeijk, 2009; Veenstra, Yakop & Bergeijk, 2010; Bayne & Woolcock, 2011a; Bayne & Woolcock, 2011b; Bergeijk, Okano-Heijmans & Melissen, 2011; Larson, 2011; Verhagen & Bleker, 2011; Romih, 2013a; Romih, 2013b; Woolcock & Bayne, 2013). Economic diplomacy is becoming increasingly important for Slovenia (Jaklič, 2010; Samec & Romih, 2010; Žbogar, 2010; Gasparič, 2011; Sovič, 2012; Erjavec, 2013; Erjavec, 2014). There are several reasons for this. One is the current financial and economic crisis, which is continuing to affect its economy. Slovenia thus faces certain economic and social problems. Foremost among these is increased unemployment. Additional measures are therefore needed to promote employment and the social inclusion of unemployed people. These measures are also needed to prevent the migration of people from Slovenia to other countries, mainly in Europe and North America. In 2012, 14,378 people emigrated from Slovenia, which is an increase of 19.6 per cent over the previous year; nearly three-quarters of them were aged 25–64 (Statistical Office of the Republic of Slovenia, 2013a). Among these, 59.9 per cent were employed prior to emigration. Most of them immigrated to a European country, mainly Austria, Germany, Croatia and Bosnia and Herzegovina, the latter two being Mediterranean countries.

### 2. Economic Promotion

Economic promotion is the activity of promoting an economy. It is very important for countries, regions, cities, etc., due to its impact on their economic performance. This is one of the reasons why economic promotion is so important for Slovenia (Romih & Logožar, 2011a, p. 135; A. Cantarutti, personal communication, 7 January 2014), whose economy is still in crisis.

Economic promotion is the main activity of economic diplomacy (Pigman, 2010, p. 69; Rana & Chatterjee, 2011, pp. 6–9). One reason for this is that this type of promotion may assist in the achievement of goals such as increasing the value of exports. Economic diplomacy is, therefore, becoming increasingly important for countries whose economic

growth is driven by exports, as is the case with Slovenia. Increasing exports is, therefore, very important to improving economic performance. Other measures are also needed, such as the promotion of cooperation between companies (especially small- and medium-sized ones) in entering foreign markets (Cantarutti, 2012).

There are several types of economic promotion, such as trade and investment promotion (see, e.g., United Nations, 2009; Naray, 2011; Mills, 2013). Trade and investment promotion are essential for a country in accelerating its foreign trade and investment. This is one of the reasons why trade and investment promotion are becoming increasingly important for countries affected by the current financial and economic crisis.

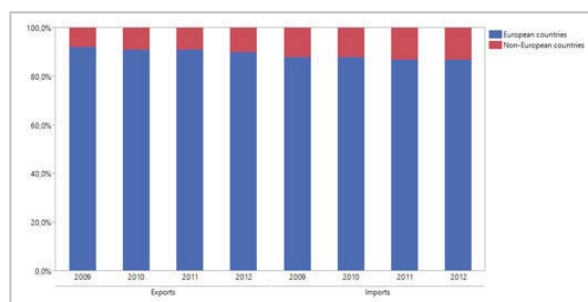
### 3. Trade Promotion

Foreign trade is the activity of trading goods and services with other countries. It is very important for Slovenia, contributing to its economic growth and development (the main goals of its economic policies) (Romih, 2013b, p. 95; Cantarutti, 2014). Trade promotion, which is the activity of promoting foreign trade, is essential to achieving these goals; this is one of the reasons why trade promotion has become an important activity of Slovenia's diplomatic and consular representatives.

Slovenia is heavily dependent on trade with other European countries (see Figure 1), mainly Austria, Italy and Germany (see Figure 2). Foreign trade diversification is thus essential in order to accelerate Slovenia's foreign trade. It is also essential to accelerate Slovenia's economic growth and development in order to restore economic stability (which, in addition to political stability, is essential for peace and prosperity). Removing trade barriers is, therefore, crucial for achieving these goals. However, the policies directed at these goals are more or less inconsistent, making them ineffective and inefficient and leaving Slovenia less competitive by comparison to some other countries. Estonia, for example, ranks 32<sup>nd</sup> out of 148 countries according to the Global Competitiveness Index 2013–2014, which is 30 rankings higher than Slovenia (Schwab, 2013, p. 15). This requires immediate action at all levels of governance (Romih, 2013c). In order to become more competitive, Slovenia needs to carry out economic reforms, which should be consistent in order to become more effective and efficient (Romih & Samec, 2010; Romih, 2013a, p. 101). This is integral to increasing public confidence in these reforms (especially during the current financial and economic crisis) and to creating an environment conducive to the economic reforms necessary if the country is to adapt to changing economic conditions at home and abroad. Furthermore, it is vital to accelerate Slovenia's foreign trade in order to improve labour market conditions and stop the 'brain drain' to more competitive countries (e.g., Austria, Germany and Switzerland). This is another reason for Slovenia to accelerate its trade promotion.

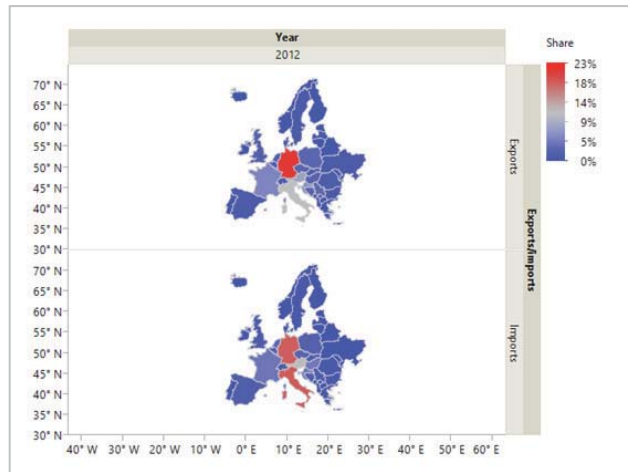
In 2012, the value of Slovenia's exports of goods to European countries amounted to 18.9 billion euros (Statistical Office of the Republic of Slovenia, 2013, p. 398), which is a decrease of 0.7 per cent over the previous year. In the same year, the value of Slovenia's exports of goods to non-European countries amounted to 2.2 billion euros, an increase of 9.5 per cent over the previous year. The main importers of goods from Slovenia among non-European countries were Algeria, Turkey and the United States of America. Also in 2012, the value of Slovenia's imports of goods from European countries amounted to 19.1 billion euros (ibid., p. 398), which is a decrease of 2.5 per cent over the previous year, while the value of its imports of goods from non-European countries amounted to 3 billion euros, an increase of 0.7 per cent over the previous year. China, the Republic of Korea and the United States of America were the main exporters of goods to Slovenia among non-European countries.

Figure 1: Slovenia's exports and imports by country groups, 2009–2012



Source of data: Statistical Office of the Republic of Slovenia (2013b, pp. 398–402).

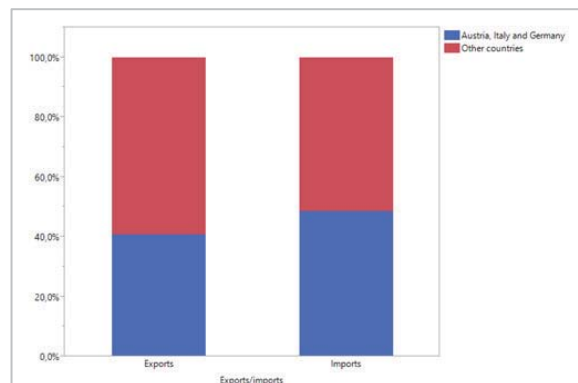
**Figure 2:** Slovenia's exports and imports by European countries, 2012



**Source of data:** Statistical Office of the Republic of Slovenia (2013b, pp. 398–402).

Austria, Italy and Germany are the three main trade partners of Slovenia. In 2012, the value of Slovenia's exports of goods to these countries amounted to 8.6 billion euros, which is 40.7 per cent of the value of Slovenia's exports of goods (see Figure 3) and 45.3 per cent of the value of Slovenia's exports of goods to European countries. In the same year, the value of Slovenia's imports of goods from Austria, Italy and Germany amounted to 10.8 billion euros, which is 48.7 per cent of the value of Slovenia's imports of goods (see Figure 3) and 56.2 per cent of the value of Slovenia's imports of goods from European countries.

**Figure 3:** Slovenia's exports and imports by country groups, 2012



**Source of data:** Statistical Office of the Republic of Slovenia (2013b, pp. 398–402).

Italy, Croatia and France are the three main Mediterranean trade partners of Slovenia. In 2012, the value of Slovenia's exports of goods to these countries amounted to 4.9 billion euros, which is 23.2 per cent of the value of Slovenia's exports of goods (see Table 1) and 74.5 per cent of the value of Slovenia's exports of goods to Mediterranean countries. In the same year, the value of Slovenia's imports of goods from Italy, Croatia and France amounted to 6.0 billion euros, which is 27.2 per cent of the value of Slovenia's imports of goods (see Table 1) and 82.1 per cent of the value of Slovenia's imports of goods from Mediterranean countries.

**Table 1:** Slovenia's exports and imports of goods by Mediterranean countries, 2012

	Slovenia's exports of goods		Slovenia's imports of goods		Slovenia's exports as a percentage of Slovenia's imports
	Thousand euros	Per cent of total	Thousand euros	Per cent of total	
Albania	37607	0.2	571	0.0	6586.2
Algeria	216173	1.0	77488	0.4	278.0
Bosnia and Herzegovina	583519	2.8	364804	1.7	160.0
Croatia	1356693	6.4	943463	4.3	143.8
Cyprus	31707	0.2	18893	0.1	167.8
Egypt	40035	0.2	16928	0.1	236.5
France	1159077	5.5	947921	4.3	122.3
Gibraltar	10	0.0	9	0.0	111.1
Greece	58055	0.3	127255	0.6	45.6
Israel	35970	0.2	20807	0.1	172.9
Italy	2380316	11.3	4108058	18.6	57.9
Lebanon	6151	0.0	3746	0.0	164.2
Libya	55752	0.3	48	0.0	116150.0
Malta	6971	0.0	2543	0.0	274.1
Monaco	0	0.0	0	0.0	0.0
Montenegro	85270	0.4	25749	0.1	331.2
Morocco	21958	0.1	2336	0.0	940.0
Palestine	73	0.0	0	0.0	0.0
Portugal	42405	0.2	37653	0.2	112.6
Spain	211781	1.0	398919	1.8	53.1
Syria	6023	0.0	736	0.0	818.3
Tunisia	22101	0.1	15517	0.1	142.4
Turkey	210463	1.0	198104	0.9	106.2
Mediterranean countries	6568110	31.2	7311548	33.1	89.8

**Source of data:** Statistical Office of the Republic of Slovenia (2013b, pp. 398–402).

#### 4. Investment Promotion

Investment promotion, which is the activity of promoting foreign investment, is a type of economic promotion. It is very important for a country for several reasons. One is the impact of foreign investment on a country's economic growth and development. For Slovenia, foreign investment is particularly important because the country lacks domestic investment (Romih, 2013a). This is, to some extent, a result of the current financial and economic crisis, which is continuing to have a negative impact on Slovenia's investment climate. There are also certain other investment barriers in Slovenia. One is economic nationalism, which does not benefit Slovenia's economy (S. Dajčman, personal communication, 29 March 2014).

In 2012, the stock of inward foreign direct investment in Slovenia amounted to 15.5 billion US dollars at current prices and exchange rates (United Nations Conference on Trade and Development, 2014), which is an increase of 4.4 per cent over the previous year. In the same year, the stock of outward foreign direct investment in Slovenia amounted to 7.8 billion US dollars at current prices and exchange rates (ibid.), a decrease of 0.1 per cent over the previous year.

#### 5. Tourism Promotion

Tourism promotion is also very important for a country. There are several reasons for this. One is the impact of tourism on a country's foreign trade and investment (see, e.g., Pigman, 2010, p. 93). For Slovenia, tourism is particularly important because it is one of the economic activities which has been least affected by the current financial and economic crisis. In 2012, 2.2 million arrivals of foreign tourists were registered in tourist accommodations in Slovenia (Statistical Office of the Republic of Slovenia, 2013b, p. 423), which is an increase of 5.8 per cent over the previous year. In the

same year, 5.8 million overnight stays were registered in tourist accommodations in Slovenia (*ibid.*, p. 423), an increase of 5.7 per cent over the previous year. Most foreign tourists in Slovenia were from Austria, Italy and Germany, who are the three main trade partners of Slovenia.

## 6. Conclusion

Slovenia is a small country which faces particular economic and social problems, such as increased unemployment (especially among young people). There are several reasons for this. One is ongoing economic mismanagement, which has had a negative impact on Slovenia's economic performance. Economic diplomacy, which has the opposite impact on a country's economic performance, is therefore very important for Slovenia and its stakeholders.

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