

International trade, foreign direct investment and global value chains



2017

SLOVENIA

TRADE AND INVESTMENT STATISTICAL NOTE

International trade and foreign direct investment (FDI) are the main defining features and key drivers of global value chains (GVCs). However, despite their strong complementarities, the two flows are typically presented and treated separately in the statistical information system. Drawing on new and improved measures of trade and investment, this country note provides relevant statistical information from OECD databases on trade, investment, the activities of multinational enterprises (MNEs) and global value chains (TiVA). It sheds new light on the trade-investment nexus by highlighting the interrelationships between trade and FDI, their economic impact in the context of GVCs, and the role of MNEs as the main directors of these flows. The data are as of 1 May 2017. More information and country notes are available at www.oecd.org/investment/trade-investment-gvc.htm.

Over two-fifths (44% in 2014) of economic activity (GDP) in Slovenia depends on foreign markets, around the same as in the Czech Republic and Slovakia. Investment in Slovenia is inward orientated (equivalent to almost 30% of GDP in 2015); these foreign-owned enterprises are twice as export intensive as the OECD median and support 16% of private sector jobs. A broader notion of international orientation, which captures the impact on national income of exports and sales through foreign affiliates, shows that Slovenia's international orientation was equivalent to 41% of GDP in 2014, one of the highest in the OECD.

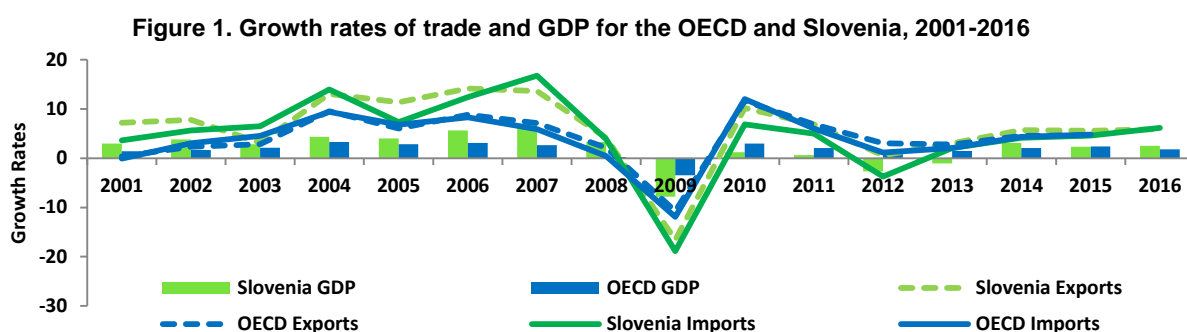
Considering both trade and investment through this broader perspective can also shed new light on Slovenia's most important partner countries. For example, while most partner countries supply Slovenian consumers mainly through trade, Swiss enterprises do the majority through sales by foreign affiliates. Furthermore, considering both trade and investment, Russia slips behind Croatia and the United States in importance as a supplier of Slovenian consumers once sales by foreign affiliates are included because of its less extensive investment links with Slovenia.

The top manufacturing exporting industries in Slovenia are chemicals and chemical products (CHM), fabricated metals (FMB) and machinery equipment (MEQ). Reflecting the outward orientation of Slovenia, almost all industries are highly export orientated. The food and beverages industry is the exception, catering more towards the domestic market. Slovenia's services content in exports is below the OECD median, and this is correlated with a comparatively low share of its inward investment going to the services sector.

Trade and investment in Slovenia

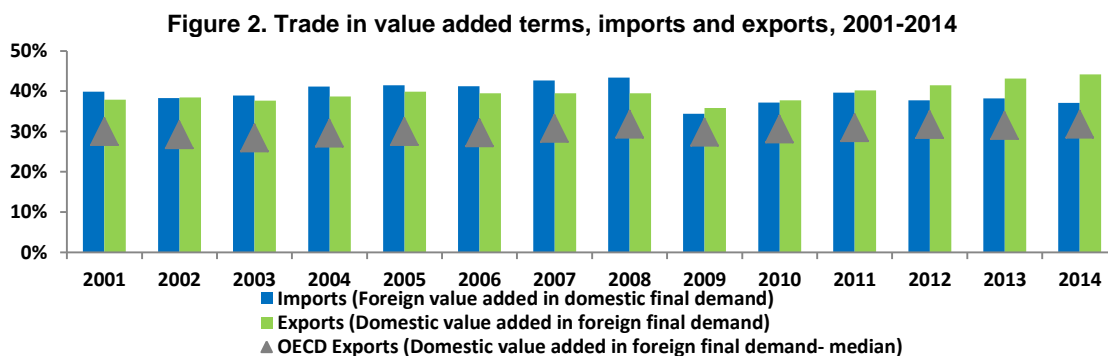
Growth in trade has recovered since the global and euro crises

Like many European economies, Slovenian trade contracted significantly at the height of the global crisis and again during the euro crisis. Slovenian trade growth was above the OECD average in the pre-crisis years, fell sharply during the crisis, but rates have broadly been in sync since then. In 2016, export growth was strong at 5.8% and import growth was 6.2%.



Source: OECD SNA

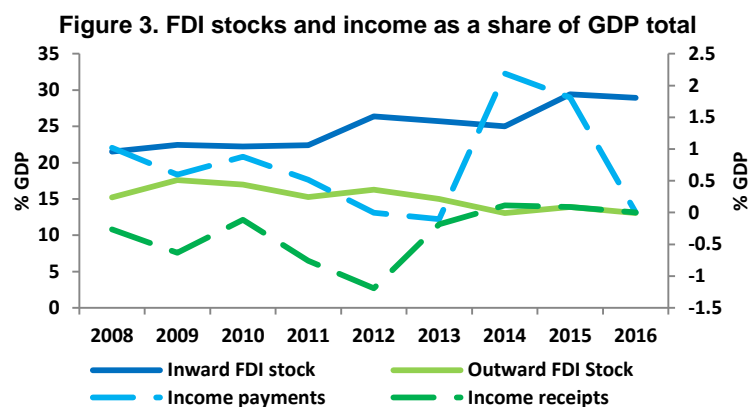
Gross exports amounted to USD 35 billion in 2016 (92% of GDP), and gross imports to USD 31 billion (80% of GDP). Gross trade figures, however, overstate the ‘real’ contribution of trade to the economy. In value-added terms, exports contributed 44% of total GDP in 2014, the highest value for the period and above the OECD median (grey diamond). The contribution of direct and indirect imports to domestic final demand measured 37% in 2014.



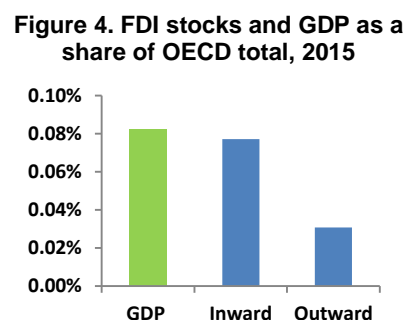
Source: OECD-WTO Trade in Value Added Data

Investment is more inward than outward

Since 2008, the gap between inward and outward FDI stocks has been growing so that Slovenian investment is more inward orientated; in 2016, inward stocks were equivalent to 30% of GDP (Figure 3). In 2015, Slovenia’s share of the OECD total inward FDI stock (0.077%) was slightly below its share of GDP (0.082%), but its share in outward stock was 0.03% of the OECD total, much lower than its share of GDP (Figure 4).



Source: OECD FDI Statistics (BMD4)



Source: OECD FDI Statistics (BMD4)

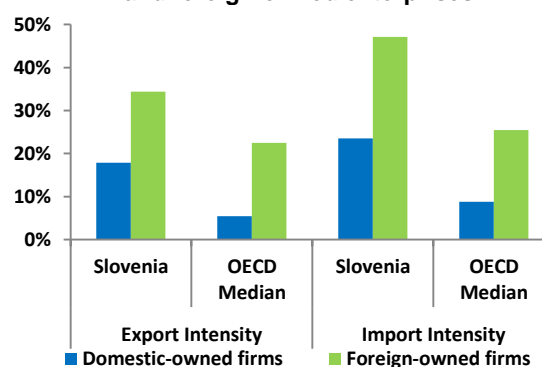
Foreign-owned firms directly sustained 16% of jobs in the private sector in 2013....

Despite the relatively small size of inward investment compared to other OECD economies, foreign-owned enterprises accounted for 16% of jobs in the private sector in 2013 and 22% of private sector value added produced in Slovenia, excluding the agriculture and finance sectors.

...and are more export intensive than domestically owned firms

On average, foreign-owned firms in Slovenia are almost twice as export intensive (share of exports in turnover) as domestically owned firms, and their export intensity is higher than the OECD median. The import intensity of foreign-owned firms (share of imports in purchases) is also significantly higher for foreign-owned than domestic firms and above the OECD median.

Figure 5. Export and import intensity of domestic and foreign-owned enterprises

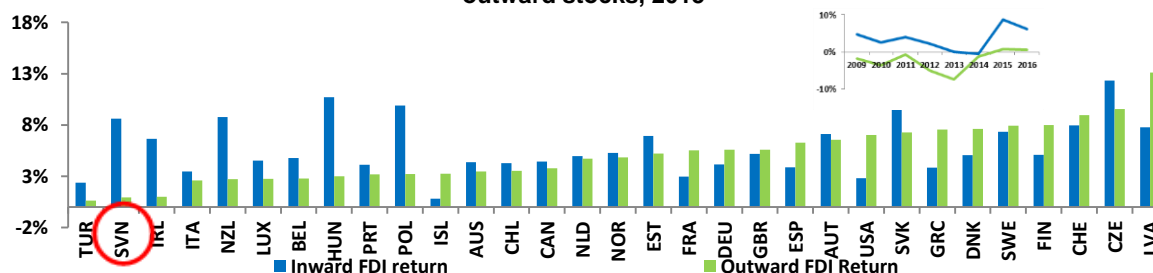


Source: OECD AMNE and Trade by Enterprise Characteristics (TEC) statistics (2011)

Domestic MNEs provide important channels to penetrate foreign markets via affiliates...

In 2015, Slovenia received USD 55 million in income from its outward investment, equivalent to approximately 0.1% of GDP. Slovenia's rate of return at 0.1% (green bar) on its outward FDI is one of the lowest in the OECD, but is higher than in previous years (see chart insert). On the other hand, the return to foreign investors in Slovenia was 8.6% in 2015, at the higher end of OECD countries.

Figure 6. Return on investment, income receipts and payments as a share of inward and outward stocks, 2015



Source: OECD FDI Statistics (BMD4)

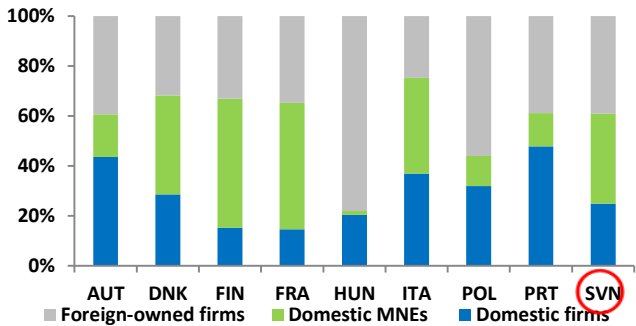
...and via exports

Similar to other European economies Slovenian parent MNEs play a significant role in GVC integration. Over one third of goods exports are by parent MNEs, and these enterprises account for just less than one-third of goods imports.

Slovenia's export orientation is high relative to other OECD countries

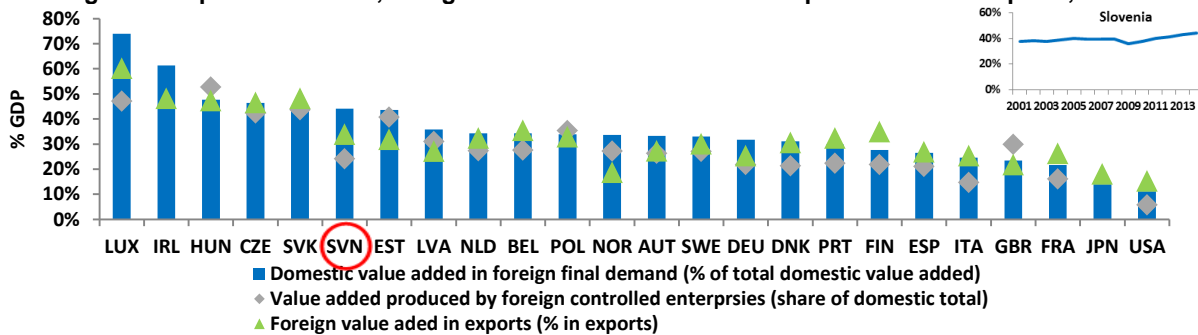
Exports (in value added terms) contribute around 44% of Slovenian GDP, this is high compared to other OECD economies but comparable with the Czech Republic and Slovakia. It may in part reflect relatively high export intensity of foreign-owned firms (compared to foreign affiliates operating in other countries) contributing to their GVC integration as measured by the import content of exports. Export orientation has increased since the crisis (see insert chart).

Figure 7. Goods Exports by firm type, the role of MNEs



Source: OECD TEC statistics (2011)

Figure 8. Export orientation, foreign affiliates value added and import content of exports, 2014

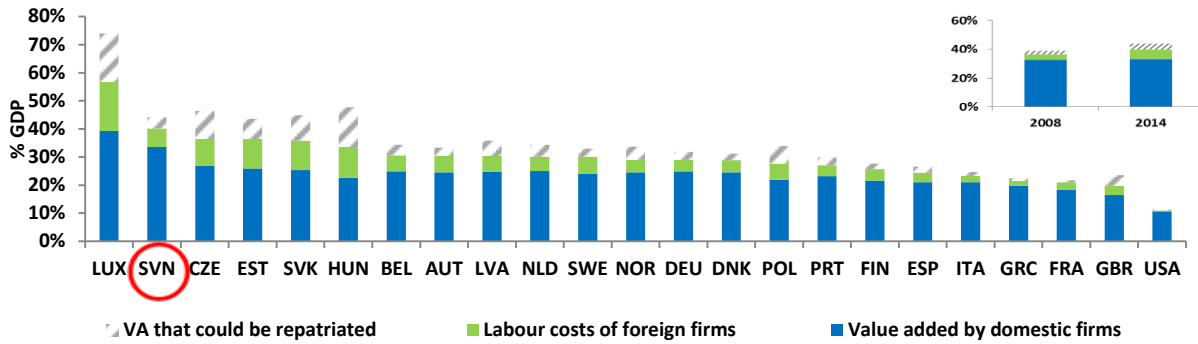


Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics

Not all of the domestic value added content of exports sticks in the economy...

Gross export figures overstate the real economic impacts of trade to the exporting economy, but TiVA estimates can also overstate these impacts as the profits earned by foreign-owned firms through exports are repatriated if they are not reinvested. Figure 9 illustrates the importance of these flows across countries by showing the value added in exports of domestically-owned firms (blue bar), wages paid by foreign-owned firms (green bar), and profits of foreign-owned firms (grey bar), which in practice can be repatriated. Excluding these profits, Slovenian exports contain 40% of value-added that remains in the economy. So, 9% of Slovenia's exported domestic value added represents profits by foreign-owned firms and 15% represents labour costs paid by these firms. The share of value added which remains in the economy increased since 2008, mainly due to higher labour costs of foreign-owned firms (insert chart).

Figure 9. Exports by ownership and their contribution to income, as a share of GDP, 2014

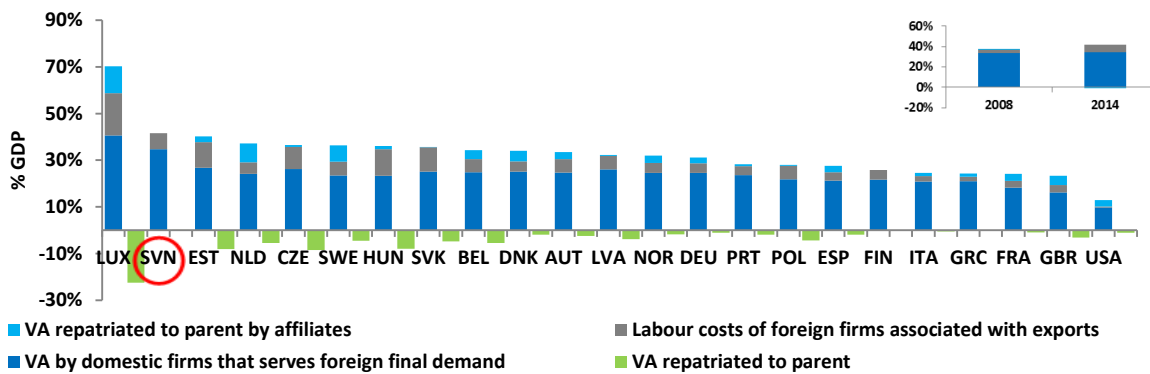


Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics

Taking a broader view by including the income of foreign affiliates can provide a more complete picture of the international orientation of the Slovenian economy

Firms serve foreign markets by exporting or by selling through their foreign affiliates. Figure 10 takes a broader view of an economy’s international orientation by taking account of both trade and investment. The chart begins with the domestic value added in exports that remains in the economy – exports of value added by domestic firms (blue bar) and wages paid by foreign-owned firms associated with exporting (grey bar) – and adds to it the profits that domestic MNEs receive from the activities of their foreign affiliates as measured by FDI income receipts (light blue bar). The income payments made to foreign parents are presented for information purposes (green bar). For Slovenia, this broader measure (41% of GDP) is lower than the export orientation measure from TiVA (44%) because Slovenia is a net recipient of inward FDI. Slovenia remains at the upper end of OECD countries using this measure, and this has increased since 2008, mainly due to increases in labour costs of foreign-owned firms (see chart insert).

Figure 10. Supplying markets through trade and investment: a broader perspective, 2014

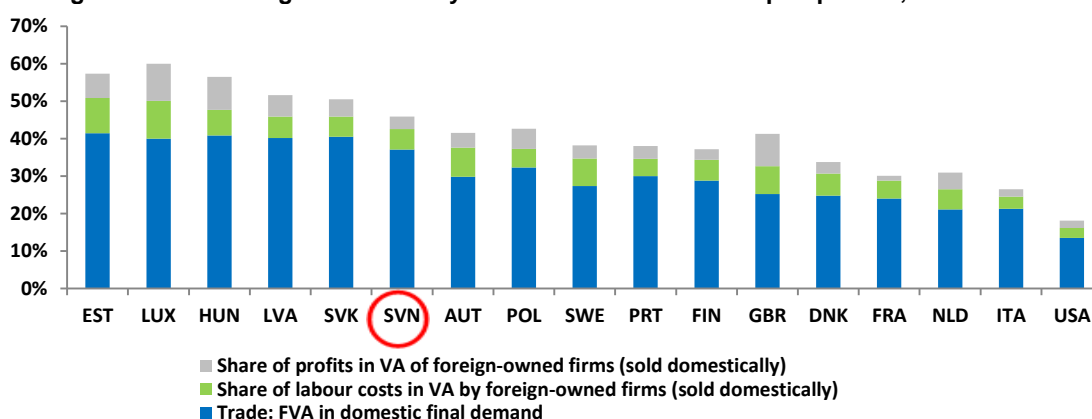


Source: OECD-WTO Trade in Value Added Data, OECD AMNE and OECD FDI (BMD4) statistics

This broader perspective can also shed light on how foreign firms serve the Slovenian market

Foreign producers supplied products and services for Slovenian final consumption equivalent to 46% of GDP in 2014; the majority is through trade (foreign value added in Slovenian final demand equals approximately 37% of GDP), but value added generated by foreign affiliates in Slovenia for domestic (non-export) sales (Figure 11) accounts for a not insignificant 9% of GDP. Although some of this value added can be repatriated to parents, this share is similar in Slovenia as other OECD countries (grey bar).

Figure 11. How foreign firms serve your market: a value added perspective, 2014



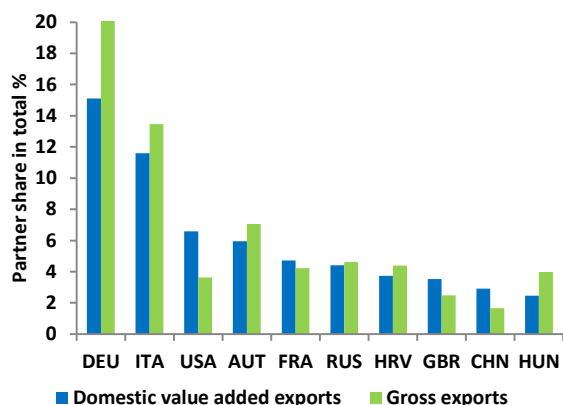
Source: OECD-WTO Trade in Value Added Data, OECD AMNE and OECD TEC statistics

Trade and investment by partner country

Trade measured from a value added perspective better reflects the bilateral relationships

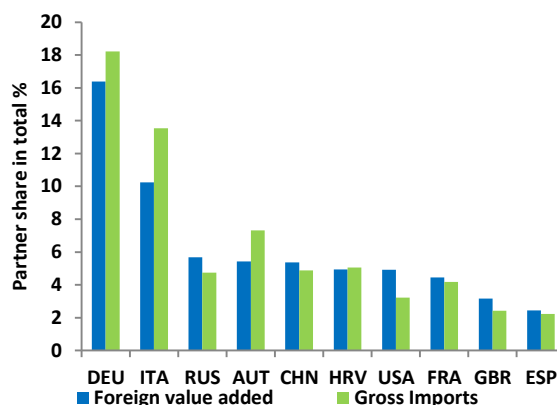
Gross bilateral trade figures can disguise the true nature of trade interdependencies, particularly between final consumers in one country and producers at upstream parts of the value chain. This is evident for the bilateral relationship with the United States; value added figures show the United States leap-frogs Croatia, Russia, France and Austria as a destination for Slovenian exports.

Figure 12. Exports: gross and value added terms, by partner country, 2014



Source: OECD-WTO TiVA Data

Figure 13. Imports: gross and value added terms, by partner country, 2014



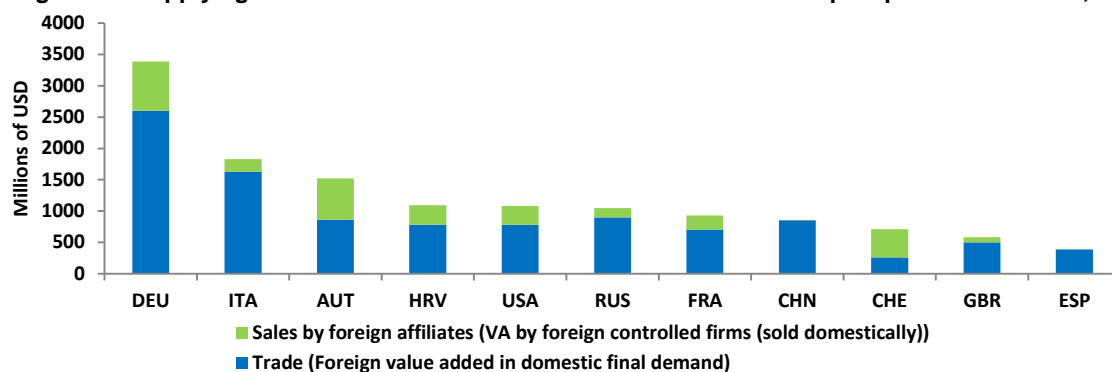
Source: OECD-WTO TiVA Data

...and interdependencies are further revealed when looking at the broader notion of 'trade'

Foreign firms can serve an economy though trade or sales by foreign affiliates; bringing the trade and investment perspectives together can shed a different light on who a country's most important partners are (Figure 14). Substantial variation exists across countries in how they supply the Slovenian market. For example, while most partner countries supply Slovenian consumers mainly through trade, Swiss enterprises do the majority through sales by foreign affiliates. Furthermore, considering both trade and

investment, Russia slips behind Croatia and the United States in importance as a supplier of Slovenian consumers once sales by foreign affiliates are included.

Figure 14. Supplying the Slovenian market via trade and investment: Top 10 partner countries, 2014



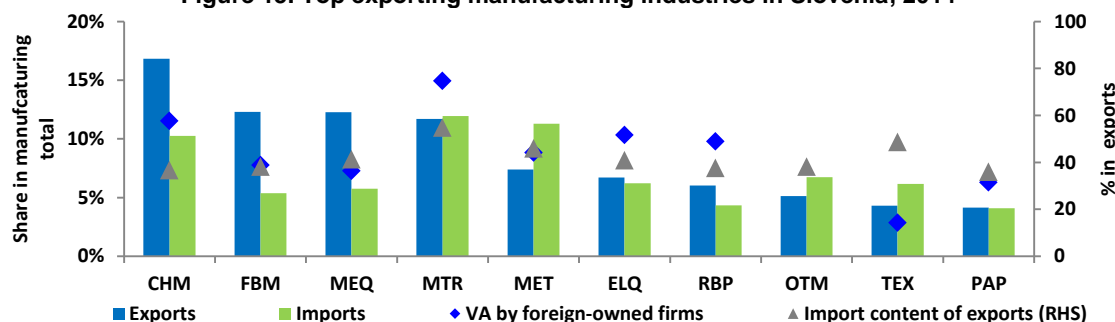
Source: OECD-WTO TiVA Data and OECD AMNE statistics

Trade and investment by industry

Inward investment helps shape Slovenia's GVC integration

The top manufacturing exporting industries in Slovenia are chemicals and chemical products (CHM), fabricated metals (FMB) and machinery equipment (MEQ). The import content of exports is relatively high across these industries—illustrating the role that importing plays in supporting exports and indicating the degree of GVC integration in these industries. The role of foreign-owned firms differs across Slovenian industry, reflecting the importance of foreign investment for certain industries.

Figure 15. Top exporting manufacturing industries in Slovenia, 2014

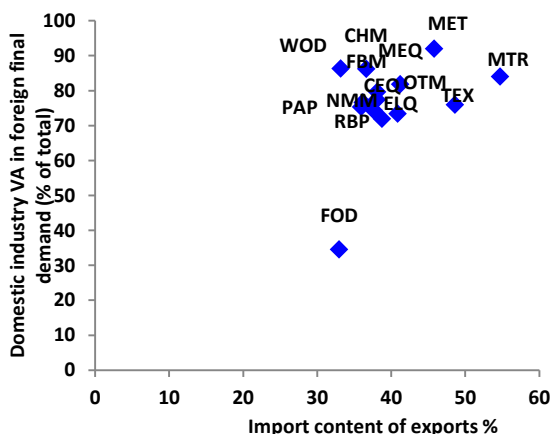


Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics. See page 10 for a description of industry codes.

Exports and imports go hand in hand...

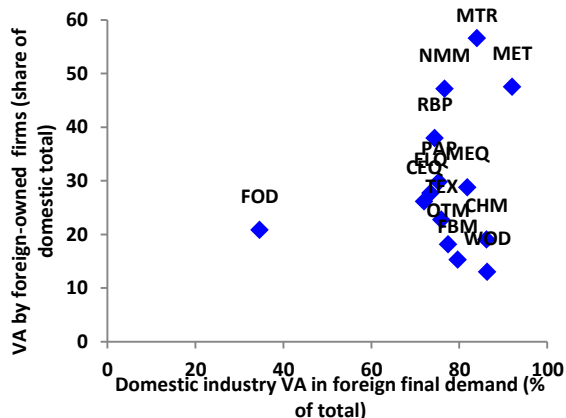
Across most industries there is a strong correlation between higher import content of exports and a higher share of their domestic value-added being exported (export orientation) illustrating the strong complementarity of exports and imports (Figure 16).

Figure 16. Import content of exports and export orientation, 2014



Source: OECD-WTO TiVA Data and OECD AMNE statistics

Figure 17. Foreign-owned firms and export orientation, 2014

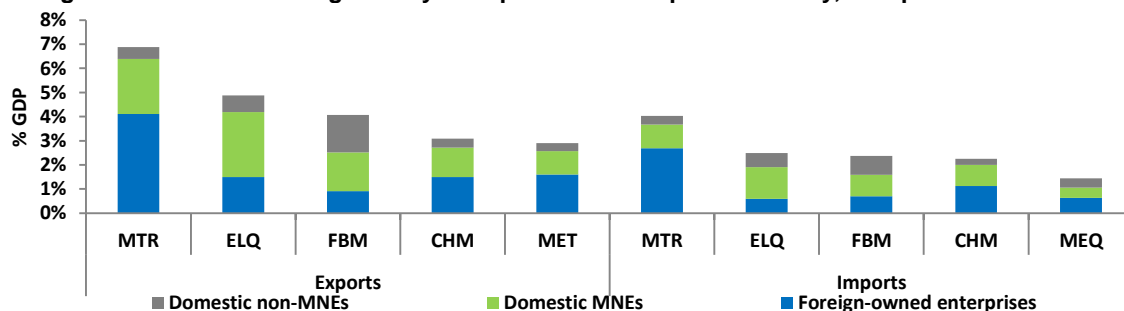


Source: OECD-WTO TiVA Data and OECD AMNE statistics

...and investment and export orientation can also go hand in hand

At the same time, strong complementarities can exist between inward investment and export orientation (Figure 17). For Slovenia, most industries are very export orientated so this relationship is less evident as in other OECD countries. The food and beverages industry illustrates the reverse argument with low foreign firm presence and low export orientation. Figure 18 illustrates the trade in goods by firm ownership; MNEs are the main traders for Slovenia, either domestic or foreign-owned enterprises reflecting the extent of globalisation of the Slovenian economy.

Figure 18. Gross trade in goods by enterprise ownership and industry, as a per cent of GDP

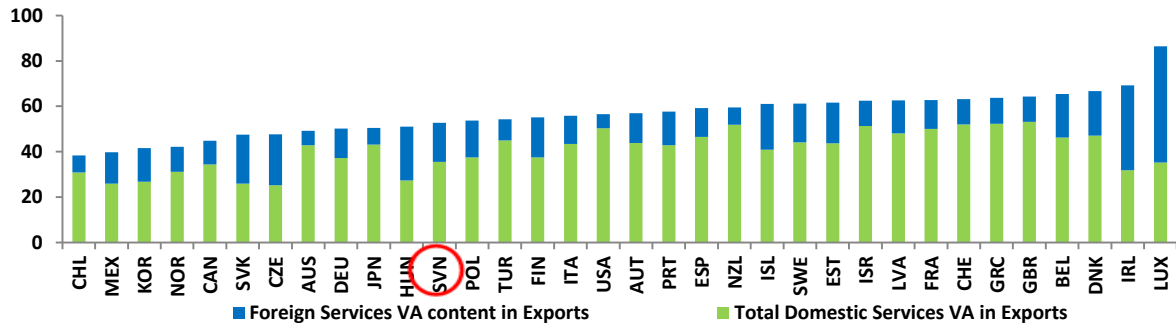


Source: OECD TEC Statistics, 2011 (latest data available)

Service industries play an important role in the export orientation of an economy...

Typically, services account for a large share of the value added in the economy but conventional gross trade statistics understate this as they cannot reveal the contribution that the upstream services industry plays in the production of goods exports. Accounting for this contribution, the services content of Slovenia's total exports of goods and services was 53% in 2014 (Figure 19), below the OECD median of 57%. Considering the services content of manufactured goods alone, 39% of manufacturing exports reflects services value added, slightly above the OECD average of 36%.

Figure 19. Services content of gross exports for OECD countries, 2014

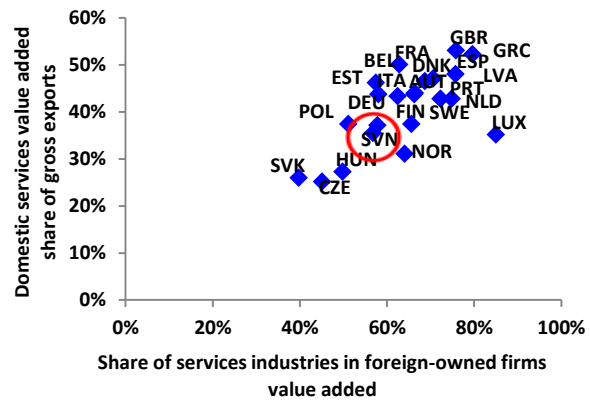


Source: OECD-WTO TiVA Data

...and so inward FDI in the services sector can be an important channel for export success

Greater foreign investment in the services sector is associated with higher services content in exports. For Slovenia, the share of investment in services is at the lower end for OECD economies, which could contribute to its relatively low services content in exports.

Figure 20. Share of services industries in foreign-owned firms' value added and domestic services value added share of gross exports, OECD countries, 2014



Source: OECD-WTO TiVA Data and OECD AMNE statistics

Links and data sources

Guide to the trade and investment statistical notes

www.oecd.org/investment/Guide-trade-investment-statistical-country-notes.pdf

Activity of Multinational Enterprises - AMNE www.oecd.org/sti/ind/amne.htm

OECD Benchmark Definition of Foreign Direct Investment - 4th Edition (BMD4)

(see Chapter 8 for information on the intersection of AMNE and FDI data)

www.oecd.org/investment/fdibenchmarkdefinition.htm

Foreign Direct Investment (FDI) Statistics www.oecd.org/investment/statistics.htm

Trade by Enterprise Characteristics - TEC

www.oecd.org/std/its/trade-by-enterprise-characteristics.htm

Trade in Value Added - TiVA

www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm

Table of industry codes

Industry Type	Ind Code	Industry Description
Primary Industries	AGR	Agriculture, hunting, forestry and fishing
	MIN	Mining and quarrying
Manufacturing	FOD	Food products, beverages and tobacco
	TEX	Textiles, textile products, leather and footwear
	WOD	Wood and products of wood and cork
	PAP	Pulp, paper, paper products, printing and publishing
	PET	Coke, refined petroleum products and nuclear fuel
	CHM	Chemicals and chemical products
	RBP	Rubber and plastics products
	NMM	Other non-metallic mineral products
	MET	Basic metals
	FBM	Fabricated metal products except machinery and equipment
	MEQ	Machinery and equipment n.e.c
	CEQ	Computer, electronic and optical products
	ELQ	Electrical machinery and apparatus n.e.c
	MTR	Motor vehicles, trailers and semi-trailers
	TRQ	Other transport equipment
	OTM	Manufacturing n.e.c; recycling
Services	EGW	Electricity, gas and water supply
	CON	Construction
	WRT	Wholesale and retail trade; repairs
	HTR	Hotels and restaurants
	TRN	Transport and storage
	PTL	Post and telecommunications
	FIN	Finance and insurance
	REA	Real estate activities
	RMQ	Renting of machinery and equipment
	ITS	Computer and related activities
	BZS	Research and development & Other Business Activities
	GOV	Public admin. and defence; compulsory social security
	EDU	Education
	HTH	Health and social work
	OTS	Other community, social and personal services
	PVH	Private households with employed persons