

Slovenian Pre- and Post-EU Enlargement Agro-Food Trade Developments

Štefan Bojnec, Darja Majkovič

Abstract - Slovenian agro-food trade structures and trade types are investigated prior and after the accession year 2004. We investigate whether the European Union (EU) enlargement represents a turning point for the Slovenian agro-food trade developments. The borderless Single European Market (SEM) provides opportunities for trade creation to increase imports toward differentiated and diversified product demands at the domestic markets, whereas agro-food exports gain opportunities for greater product specialization in supply to exploit economies of scale of bigger SEM. On the other hand, the abolishment of the preferential trading regimes with important trading partners in ex-Yugoslav markets lead to trade diversion due to worsening of trade regimes in these traditional markets. The focus of the analysis is on the period 2003-2005. The changes in geographic export and import product structures provide evidence whether Slovenian agro-food exports/imports are targeting on the EU markets exploring new business opportunities. The Slovenian pre- and post-EU enlargement agro-food trade developments are analyzed in value terms by different trade structures and trade types. Finally, the paper summaries main findings on trade developments by geographic trade structures and trade types and derives implications of importance for agribusiness enterprises, traders and policy makers.¹

INTRODUCTION

This paper investigates whether the European Union (EU) enlargement in the year 2004 represents a turning point for the Slovenian agro-food trade developments. We investigate Slovenian agro-food trade structures and trade types prior and after the accession, when on 1st May 2004 Slovenia entered into the enlarged EU-25. The EU enlargement is expected to induce forces for trade creation with the EU countries and trade diversion with the previous non-EU trading partners and thus might lead to considerable changes in trade structures. So far rare studies deal with the subject. Trade and financial flows after accession are simulated with the use of CGE model (Majcen et. al, 2005), while the role of Slovenia in regional trade reintegration - focusing on

investment activity of Slovenian firms - is investigated by Damijan and Mrak (2005). Slovenia as well as the other new EU member states' agro-food trade and its determinants are investigated mainly by Bojnec et al. (2005, 2006) and Bojnec and Fertő (2006). Trade structures, trade types and trade patterns are analyzed to identify possible shifts in trade creation and trade diversion. The changes in geographic export and import product structures provide evidence whether Slovenian agro-food exports/imports are targeting on the EU markets exploring new business opportunities focusing on the Slovenian pre- and post-EU enlargement agro-food trade developments.

METHODOLOGY AND DATA USED

The methodology applied in this paper is summarised in Table 1.

Table 1: Criteria for decomposition of trade flows and trade flows classification.

Degree of overlap between Export (X) and Import (M) values: Does the minority flow represent at least 10% of the majority flow?	Similarity of export and import unit values: Do X and M unit values differ less than 15%?	
	Yes (horizontal differentiation)	No (vertical differentiation)
Yes	Two way trade in similar products	<i>Two – way trade in vertically differentiated products</i> LQVIIT: if $UV^X / UV^M < 1/1.15$: low export prices (indicates low export quality) and high quality of imports HQVIIT: if $UV^X / UV^M > 1.15$: high export quality and low import quality
		<i>One – way trade</i>
No		

Source: Fontagné et al. (1997), Díaz Mora (2002), and own set conditions for classification of trade flows.

The data used are obtained from Statistical Office of the Republic of Slovenia (SORS) at the six-digit product level of combined nomenclature (CN). As

Štefan Bojnec, University of Primorska, Faculty of management, Cankarjeva 5, 6000 Koper, Slovenia (stefan.bojnec@fm-kp.net).

Darja Majkovič, University of Maribor, Faculty of Agriculture, Vrbanska 30, 2000 Maribor, Slovenia (darja.majkovic@uni-mb.si).

agro-food products are considered the first 24 chapters of the CN.

RESULTS

We focus to present two main empirical results. Firstly, possible changes in geographical trade structures by main trading partners, and secondly, possible changes in trade types within the each group of trade partners.

The geographical trade structures by four main trade partners (the old EU-15 member countries, the former Yugoslav states, the new EU-9 member countries, and the rest of the world) are presented in Table 1. The level of Slovenian agro-food exports declined, whereas the level of agro-food imports increased. Thus deficit in agro-food trade increased. At the same time it is interesting to note that the geographical structures of the Slovenian agro-food exports has changed particularly by its increases with the EU-15 and decreases with the ex-Yugoslav states and to a lesser degree with the rest of the world. The import share with the EU-15 increased as well, whereas with the ex-Yugoslav states and with the rest of the world declined. These shifts in agro-food trade structures are reflected in agro-food trade balance. Agro-food trade deficit with the EU-15 and to a lesser extent with the NMS-9 increased, whereas with the ex-Yugoslav states and the rest of the world declined. These empirical results for the Slovenian agro-food trade developments clearly confirmed trade creation with the EU-15 countries and trade diversion with the ex-Yugoslav states and with the rest of the world.

Table 1. Slovenian agro-food trade, 2003 and 2005*.

	EU-15		Ex-Yugoslavia		NMS-9		The rest of the world	
	2003	2005	2003	2005	2003	2005	2003	2005
%X	25.8	43.5	60.6	45.4	3.4	3.1	10.2	8.0
%M	54.1	66.7	11.0	8.3	16.1	15.9	18.8	9.1
Balance	-356	-496	181	104	-125	-148	-119	-59

* Preliminary data for 2005. X exports and M imports, %X and %M share in total agro-food exports and imports, and Balance is exports (X) minus imports (M).

Source: Own calculations based on dataset obtained from SORS.

Some significant shifts are also identified in trade types (Table 2). The significance of the one-way trade declined, which is consistent with trade liberalisation process, particularly the enlarged EU-25, and economic growth. Within the two-way trade, the significance of high quality vertical intra-industry trade increased. It seems that in behind are two simultaneous processes. Firstly, the selection process among exporters in the increasingly competitive international markets concentrate exports on high quality and niche products with relatively higher export prices. Secondly, import deregulation and particularly the entry of foreign supermarkets on the Slovenian domestic markets encourage an increase of imports of agro-food products at relatively lower prices particularly for low-price supermarket chains. As a result, this has led to an increase of export-to-import price ratio and thus to increase in high quality vertical intra-industry trade. Finally, some increases are also identified in horizontal intra-industry with the EU-15 and the ex-Yugoslav states.

Table 2. Trade types in Slovenian agro-food trade, 2003 and 2005 (%)*.

Trade-type	EU-15		Ex-Yugoslavia		NMS-9		The rest of the world	
	2003	2005	2003	2005	2003	2005	2003	2005
One-way	88.63	56.20	73.81	27.69	92.88	39.85	97.76	7.54
VIIT-high	4.15	31.15	9.30	51.22	2.53	54.37	0.40	89.54
HIIT	0.90	3.69	5.05	10.83	2.15	0.41	0.12	0.59
VIIT-low	6.32	8.97	11.84	10.26	2.43	5.37	1.71	2.33
Total (%)	100	100	100	100	100	100	100	100

* Preliminary data for 2005. VIIT means vertical intra-industry trade and HIIT means horizontal intra-industry trade.

Source: Own calculations based on dataset obtained from SORS.

CONCLUSIONS

With the EU-25 enlargement, the Slovenian agro-food exports in absolute amount declined, but there is a significant shift in the structure of Slovenian agro-food trade towards the EU members, particularly the old EU-15 member countries. The EU membership has brought less significant changes in Slovenian agro-food trade with the other new member states of the EU. The relative importance of Slovenian agro-food exports to the ex-Yugoslav markets is reduced, whereas Slovenian agro-food imports from the ex-Yugoslav states and from the rest of the world is reduced. Therefore, the EU enlargement has induced forces for trade creation with the EU countries and trade diversion with the non-EU trading partners. For the Slovenian agro-food trade, the SEM has provided opportunities for trade creation to increase imports, but opportunities for greater export product specialization due to lack of competitiveness have not been utilised so far. Agribusiness enterprises, traders and policy makers should in a greater degree particularly consider opportunities, which have arisen on the enlarged EU-25 markets.

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