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### **Methodology for Measuring Competitive Advantages and Positioning the Sectors of the Slovenian Economy by their Merchandise Trade Competitiveness**

The first part of this article presents the methodology for measuring four groups of indicators of competitiveness and international comparative advantages on the basis of trade data. The article also presents the methodology for constructing a composite ranking indicator of comparative advantages and their evaluation in a matrix form. First, we present indicators for the calculation of export and import structures by sectors of the national economy. Second, we present indices of intra-industry trade, including the static Grubel-Lloyd index, dynamic marginal intra-industry trade index and its decomposition into horizontal and vertical parts. Intra-industry trade is defined as a percentage of trade in similar products. Third, we present the methodology for measuring international trade advantages: the relative export advantage index, the relative import penetration index and the relative trade advantage index. Fourth, we present the methodology for calculating a ratio between export and import prices for three specific case studies: the ratio between Slovenian export prices to those of the EU-15 countries and the Slovenian import price as against that of the EU-15 countries; the ratio between Slovenian export prices to those of the EU-15 countries and the internal import price in EU-15 trade; and the ratio between Slovenian export prices to those of the EU-15 countries and the external import price in EU-15 trade. Fifth, we propose a composite indicator incorporating the previous four groups of indicators of competitiveness and comparative advantages as well as a method for ranking and presentation them in a matrix form. The second part of this article summarises the results of the analysis of the structure of Slovenian merchandise exports and imports, intra-industry trade, comparative trade advantages and the ratio of export to import prices. The results are ranked and presented in a matrix form using a composite indicator which includes the results of the four groups of trade competitiveness and comparative advantage indicators. The article concludes by pointing out the significance of the results for economic policy.

**Key words:** structure of merchandise trade, indicators of competitiveness and comparative trade advantages, composite indicator, method of ranking, integral matrix of results

Stanislav Černoša

### **Horizontal and vertical intra-industry Slovenian trade from 1994 to 2003**

We measured horizontal and vertical intra-industry trade (IIT) for Slovenia at the 5-digit level of the SITC from 1994 to 2003 using the methodology introduced by Greenaway, Hine and Milner (1994 and 1995). The results of this measurement show that the share of IIT in the observed period was below 50% of the total trade of Slovenia, except in 2003 when the share of IIT represented approximately half of the overall trade. It was also confirmed that the share of vertical IIT was between 81% and 84% of total IIT and that horizontal IIT represented the remaining share of the total IIT of Slovenia. According to these results, vertical IIT dominated over horizontal IIT during the observed period. We also separated vertical IIT into VERT1 which represents higher quality products, and VERT2 which represents lower quality products. This separation of vertical IIT for Slovenia shows that the share of VERT1 was smaller than the share of VERT2. In other words, our analysis confirms that the lion's share of Slovenia's exports appears to consist of lower quality products compared to the simultaneous imports during the 1994-2003 period.

**Key words:** Intra-industry trade, Inter-industry trade, Horizontal and Vertical Intra-industry Trade, Slovenia

Marjan Ravbar

### **Factors of Regional Development in the Regional Division of Slovenia**

Balanced regional development plays an important role in the planned reform of the political institutional system that is set to introduce the second level of local government. Regional development factors will be instrumental not only in deciding on the appropriate dividing up of Slovenia into functionally closed areas but also, given the modern social circumstances, in systematically assessing the alternative divisions from the viewpoint of causal links between defining regions and regional development, the effects of the polycentric settlement network layout and the decentralisation of institutions.

Previous territorial divisions of Slovenia are still reflected in people's consciousness, each in their own way. The pre-Yugoslav division of the country into regions still lingers in people's consciousness and, albeit outworn long ago, it remains a potential latent basis for the future regional organisation. Later administrative and functional divisions have, with minor modifications, also been known in the post-war period. The progressive changes and establishment of the lowest level of local government have given rise to new functions. Urban gravitational areas functioning as regional labour markets are similarly subject to ongoing change.

The boundaries of regions are usually determined on the basis of their historical, administrative, economic and functional characteristics, the uniformity and gravitational affinity of areas, the size of the settlement network and other economic activities. The functioning of regional areas also depends on social and economic policies, the accessibility of urban centres functioning as development generators, especially in the areas of (public) institution-building, employment, business activities and the provision of services, and political and administrative factors. The location and size of regions are strategically relevant to the country's regional and spatial policies.

In order to streamline the functioning of the state, a framework identifying the borders of regions should be determined. Regions should, naturally, be legally regulated so as to ensure their legal and formal identification. In accordance with the regional policy principles, the regionalisation process should be paralleled by the devolution of power leading towards partnership and subsidiarity. The polycentric system could serve as a basis for networked management that would prevent centralisation on one hand and provide the conditions for balanced development on the other.

**Key words:** regionalisation, decentralisation, regional development

Tine Stanovnik, Miroslav Verbič

### **A contribution to analysing income inequality in Slovenia**

This paper analyses the dynamics of wage inequality in Slovenia from 1993 to 2002 by using two different data sources. The first is obtained by extracting relevant information on wage earners from the personal income tax (PIT) database while the second is obtained using published data on wages and wage distribution. Analyses of both datasets are congruent and clearly indicate an increase in wage inequality up to 1995, followed by a very gradual creeping-up. We ascribe the large increase in the first years of transition to both the rapid development of a fully-fledged market economy and to the changing PIT legislation. The growing individualisation of wage contracts also contributed to the exacerbated inequality. The effects of tax progressivity were to a large extent neutralised by an increase in wage dispersion.

**Key words:** economic transformation, income distributions, income inequality, Slovenia, wages, wage contracts