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SLOVENIA'S ACCESSION TO THE EUROPEAN UNION: DOMESTIC AND FOREIGN POLICY CONSEQUENCES

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Slovenia's entry into the European Union (EU) on 1 May 2004 marked the completion of the country's "return to Europe." Coupled with its admission to NATO (North Atlantic Treaty Organization) earlier in the year, Slovenia has now achieved the two principle foreign policy goals it set for itself upon gaining independence from Yugoslavia in 1991.

While placing Slovenia squarely in Europe (and further disassociating the country from the Balkans), EU membership will have a significant impact on nearly every facet of the country and its public policy.

In terms of the general domestic environment it is interesting to note how Slovenia's population appears to feel about EU membership and its consequences. In the spring of 2003 nearly 90 percent of those participating in a national referendum indicated their approval of EU membership for Slovenia. The following spring, on the eve of Slovenia's accession, a Eurobarometer survey revealed a somewhat more mixed view of the EU.[1] On the one hand, the percentage of respondents stating that EU membership would be "a good thing" for Slovenia stood at 40, which was among the lowest of the ten new members—and down 10 points from the previous year. On the other hand, the percentage indicating they expected Slovenia to benefit from EU membership (64), was the highest of the ten new members (but down eight points from 2003), as was support for the euro (82 percent). In addition, Slovenia scored among the highest of the ten new members in support for an EU Constitution (68 percent), a common foreign policy (76 percent), and a common defense and security policy (78 percent).

Determining the impact of EU membership on Slovenia's economy is a highly speculative affair. Much of what has been written thus far is replete with "on the one hand" and "on the other hand"

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1 See: http://europa.eu.int/comm/public_opinion/archives/cceb/2004/cceb_2004. 1_first_anx.pdf

narrative that President Truman disliked so much. For example, regarding the impact on employment, one the one hand, Slovenia's labor costs are generally lower than those of the pre-2004 members of the EU. On the other hand, Slovenia compares unfavorably with the labor costs of many of the ten new members of the EU. It should be noted that most of the pre-2004 EU will be closed to Slovene workers, while Slovenia will have to open its borders to workers from the other nine new member states. On the positive side, 335 high-paying EU administrative positions in Brussels became available to Slovene citizens with accession.[2] With respect to trade, EU membership will likely result in an increase in Slovene exports to the region and a gain in employment. And yet it may also result in increased imports, with a negative impact on employment.

One encouraging economic trend has been growth in foreign direct investment (FDI) into Slovenia. In 2001 Slovenia had one of the lowest rates of FDI among the then-candidate states. Currently, it easily rates in the upper half of the new entrants. It is, however, hard to get a good fix on FDI rates in Slovenia, or small countries in general. FDI rates are normally calculated as a percentage of GDP. Because of the small size of Slovenia's economy, only one or two substantial ventures by a foreign enterprise can bring a significant upward spike to the country's FDI rate. For example, from 2001 to 2002, Slovenia's FDI rate grew from 2.8 percent of GDP to nearly 9 percent of GDP, largely due to two transactions.[3] Slovenia was criticized throughout the 1990s as well as the first two years of this decade for its relatively poor FDI climate, particularly its slow implementation of privatization laws and burdensome FDI procedures.[4] This situation has significantly improved as Slovenia moved to meet the EU accession criteria. It is understandable that a country of just 2 million inhabitants and an annual GDP that is less than Bill Gates' worth should be concerned about foreign acquisition of its economy. The small size of Slovenia's economy likely makes it a less

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2 RFE/RL *Balkan Report* 8 August 2003.

3 Carlos Silva-Jáuregui, "Macroeconomic Stabilization and Sustainable Growth," *Slovenia: From Yugoslavia to the European Union*, Mojmir Mrak, Matija Rojec, and Carlos Silva- Jáuregui, eds. (Washington: The World Bank, 2004) 123.

4 OECD, *Foreign Direct Investment in Slovenia: Trends and Prospects* (Geneva: OECD, 2002) 25–27; accessed at www.oecd.org/dataoecd/28/14/1831975 .pdf.

attractive destination for FDI, since economies of scale can be applied in only a limited fashion.

Initially Slovenia will be a net recipient with the EU—meaning that it will see more EU funds entering the country than money transferred to Brussels. The net benefit will be relatively small, but overall this is a welcome change from a 2002 report which suggested that Slovenia might be a net contributor upon accession. The major issue for the future is whether Slovenia will continue to receive regional development funds beyond the current budget cycle that ends in 2006. In order to be eligible for these funds, a country must have a GDP per capitas that is less than 75 percent of the EU average. At present Slovenia's GDP is 73 percent of that figure. If Slovenia experiences growth that is faster than the EU as a whole, it could reach the 75 percent threshold in a few years. In addition, if Romania and Bulgaria are added to the EU in 2008, as some believe will be the case, they will pull down the EU average and Slovenia may find itself above the threshold. By one estimate, Slovenia could be eligible for up to 2.6 billion euros in regional development funds during the 2007–2013 budgeting period.[5] The Slovene government has attempted to avoid this problem by arguing that Slovenia should be divided into three regions and that the two regions with GDP per capita below the threshold should continue to receive funding. This argument is not likely to be well-received in Brussels.

Slovenia is committed to adopting the euro as quickly as possible. At present it meets two of the four criteria necessary for entering the "euro-zone." The biggest obstacle is inflation. In 2002 Slovenia's inflation rate of 7.5 percent was the highest among the eight Central and East European candidate countries.[6] This figure has since declined to 3.8 percent for 2004, placing Slovenia roughly in the middle among the previously-mentioned group and very close to meeting the euro-zone criterion of exceeding by no more than 1.5 percent the inflation rates of the three best performing euro-zone states (currently this limit would be approximately 3.5 percent).[7] Also, Slovenia's currency must perform

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5 Slovenska tiskovna agencija (STA [Slovene Press Agency] Ljubljana) 19 February 2004.

6 Silva-Jáuregui 121.

7 Eurostat, "Euroindicators" (16 December 2004); accessed at http://epp.eurostat.cec.eu.int/cache/ITY_PUBLIC/2-16122004-AP/EN/2-16122004-AP-EN.PDF.

successfully for a minimum of two years within the EU's exchange rate mechanism (ERM-II) before it can be considered for the euro-zone. Slovenia entered the ERM-II on 28 June 2004.[8]

Politically, perhaps the most sensitive issues associated with EU accession are the potential losses of sovereignty and of national identity. For a country that has experienced less than fifteen years of independence, these concerns seem especially real.

For Slovenia, becoming a member of the EU means that many decisions that had been made in Ljubljana will be made in Brussels. And decisions that will continue to be made in Ljubljana, will be subject to significant limitations in terms of options. The polling data mentioned above suggests that these limits are not presently a concern with the Slovene public. Slovenes are among the most pro-European people in the EU, registering high degrees of support of key EU initiatives (i.e., the euro, and a common foreign policy) as well as for most key EU institutions.

For the moment, concern about the possible loss of national identity seems to be limited to Slovene intellectuals and political elite. President Drnovšek, for example, hosted a five-hour meeting of fifty Slovene political and intellectual leaders in October 2003 that was devoted to finding ways of promoting Slovenia's identity and interests in the world.[9] The author recalls an interview with a French "euro-skeptic" more than a decade ago who questioned what would happen at some future date when the average French citizen came to realize that more decisions directly affecting his or her life were made in Brussels than in Paris. This, too, is a valid concern for Slovenia, but it is not clear when or if such a moment will occur.

One curious benefit of EU membership for the Slovene government might be the enhancement of its ability to impose politically unpopular economic reforms under the guise of a Brussels mandate. For example, blame for possible cuts in social programs can be shifted to Brussels thereby minimizing the political damage caused to the government.

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8 STA (Ljubljana) 6 July 2004.

9 RFE/RL *Balkan Report* 21 November 2003.

In terms of its overall presence in the EU, Slovenia is obviously a very small player. It represents less than one percent of the EU's population and has about one percent of the seats in the European Parliament. One trend that may work to Slovenia's advantage is the presence of many small states in the EU. Working together (assuming that small states as diverse as Luxembourg and Malta can work together) these states can exert a disproportionate amount of influence over the European Commission in which each state is represented by a single commissioner. Arguably, the commission is the most influential body within the EU.

One cannot ignore the impression that Slovenia, along with the other Central and East European new entrants, will temporarily be treated as second-class citizens within the EU. As noted above, Slovene citizens will not be permitted complete movement (for purposes of finding work) within the pre-2004 EU boundaries until at least 2007, while at the same time Slovenia will have to permit citizens of all EU members (new entrants included) to take up residence and work in Slovenia. However, each new entrant is free to make bilateral arrangements with the pre-2004 member states. Slovenia has successfully made such arrangements with both Austria and Italy. Fundamentally this treatment is not likely to have a significant impact on Slovenia's workers. Surveys suggest that Slovenes are among the least likely in the entire EU to leave their home country for purposes of pursuing employment opportunities elsewhere.[10] Perhaps for this reason, Slovenia, unlike many other Central and East European accession countries, chose not to regard this treatment as a major controversy.

In the realm of foreign policy, Slovenia's relations with its various neighbors represent the most noticeable effect of EU membership. All of Slovenia's neighbors except Croatia are now EU members. Thus its borders with Italy, Austria, and Hungary will only become more open over time. Slovenia is already enjoying greatly facilitated border crossings with Italy and Austria; however, traffic at these borders will continue to be regulated to some extent until at least 2007.

With accession Slovenia's border with Croatia became an outer border of the EU and has had to meet significant new standards for border control. The so-called Schengen standards, once fully

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10 STA (Ljubljana) 10 March 2004.

implemented on the Croatian border, will lead to the cessation of all remaining regulation of traffic across Slovenia's EU borders. In order to meet the Schengen standards, Slovenia has begun to improve the physical plant of its border facilities, hire more border police (ultimately about 1,900 more personnel will be added), and introduce new systems for storing and exchanging information related to border control. For the 2004–2006 period, Slovenia will receive nearly 105 million euros from the EU.[11] The total estimated cost of the improvements is at least 420 million euros, and that figure may go higher depending on when Croatia is admitted to the EU, since much of the additional cost involves paying the salaries of the additional border police.[12] Once Croatia is admitted to the EU, the annual costs will begin to come down and may ultimately reach zero if Croatia is ever able to fully meet Schengen standards. But this is obviously a longer-term goal. About half of the additional cost of border control will come from the EU, but the remainder will have to be supplied by the Slovene government.[13]

It is not yet clear what Slovenia's EU membership has meant in terms of the country's general relations with Croatia. One consequence was that Croatia's special trade agreement with Slovenia became void. Croatia will now have to negotiate such issues with Brussels. It is likely that Croatia is not pleased with the changes in the manner in which border traffic with Slovenia is regulated. This would be understandable. One major point to be made here is that Slovenia will play a key role in determining when Croatia is admitted to the EU. Croatia is officially a candidate country with the EU and is hoping for membership as soon as 2007. It is not clear how realistic this date is. The EU will have had just three years to adjust to its ten-nation enlargement, and it may not be amenable to further expansion after such a short time. It is clear that Slovenia and Croatia will have to settle most of their remaining problems prior to Croatia's accession. Perhaps the most pressing issue is the dispute over the border—both land and sea. Most recently, the previous Slovene government threatened to hold up Croatia's candidacy for EU membership over one aspect of the border dispute.[14] The new Slovene government has initially backed away from this threat. Given that

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11 STA (Ljubljana) 6 May 2004

12 STA (Ljubljana) 18 February 2004.

13 STA (Ljubljana) 6 May 2004.

14 RFE/RL *Balkan Report* 4 October 2004.

Slovenia is already a member of the EU, conventional wisdom would suggest that Zagreb would be well-advised to compromise on the standing disputes it has with Ljubljana. However, it is likely that Brussels will not support Slovenia using the advantage of its EU status to extract one-sided agreements from Croatia.

In closing, it is noteworthy that Slovenia has had its share of bad luck in its efforts to attain EU membership. By most standards, Slovenia did a better job of preparing for EU membership than virtually any other candidate state. It is very possible that, had the EU decided on a more gradual approach to enlargement, Slovenia would have been among the first few countries admitted and perhaps would have received more substantial economic benefits as a result. It is promising that even with this misfortune, most Slovenes remain very supportive of the EU and its agenda.

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