COUNCIL of SLOVAK EXPORTERS

The Fragile Reality of Slovak Export

An analysis of the evolution of Slovak export emphasizing foreign trade in 2019 and 2020 – A proposal of measures and cooperation among relevant entities.

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A new network of relationships and opportunities for growth is emerging. What holds true for the Slovak economy as a whole, holds true for Slovak export – it is high time to act.

In the current post-pandemic era, export is recovering from an economic recession and is especially important for the Slovak economy. The aim of this analysis is to identify developments in and current risks to the export performance of Slovak companies, as well as necessary pro-export policy measures of the Slovak Republic.

There are many reasons for the current unsatisfactory state, none of which are tied to one specific government in office. Connected to the stagnation, perhaps even the decline in the export competitiveness of Slovak companies is a gradual loss of identity of the Slovak Republic, in other words of its global branding. Not only was Slovakia unable to build upon its historical heritage and the Czechoslovak tradition of foreign trade; its international standing has been narrowed down to wooing international investment, while simultaneously lacking in development and support for added value by way of education, research, and development, which are the key in growing the competitiveness of Slovak small and medium-sized businesses. This is proved by domestic economic data and statistics, as well as by international studies such as the latest OECD Country Report.

The most important warning signs are: a decreasing positive export trade balance and overall export performance in recent years, a certain economic monotony in Slovakia where three categories of goods make up for almost 65 percent of exports, an insufficient level of diversification and an overdependence on EU markets, driven not by domestic added value, but by direct foreign investment and by demand, especially of the German market. This decline was exacerbated by a decrease in number of economic diplomats by about a quarter in recent years. Some foreign positions are cancelled, other remain vacant.

In Slovakia we are witnesses to insufficient funding and jurisdictional fragmentation of the foreign trade portfolio across state institutions, resulting in an unsystematic approach, duplicities and above all ineffective implementation of policies. Conceptual and strategic documents, one of which is the Strategy of Foreign Economic Relations of the Slovak Republic 2014-2020, remain de facto largely unimplemented.

This analysis should, therefore, initiate a nationwide discussion, the result of which should be specific propositions and solutions concerning the development of an up-and-coming Slovak pro-export policy for 2021-2030.

This document is apolitical and science-based. It should engage the business community in this debate, along with associations of entrepreneurs and employers, relevant state institutions and authorities, the academia, financial institutions, experts and most importantly state officials, the parliament and political parties.

This analysis and its recommendations are also a discussion point at the 2021 Export Forum organized by the Ministry of Foreign and European Affairs and other state institutions.

Lukáš Parízek

Trend Indicators of Slovak Export

The importance of export in the national economy was evidenced in the growth trajectory of many world economies, mainly Asian, such as those of the Peoples' Republic of China, Singapore, or South Korea and others. That is why political representatives in this environment of growing global competition are striving to enhance the export potential of specific economies. Not just at the level of the gross national export, however, but most importantly at the qualitative level, represented by the export of sophisticated products, high-end technologies, by a growing share of services on overall export, as key determinants of international competitiveness.

State active and effective support for the development of exporting businesses, or rather their recovery in the current COVID-19 era, is key in this process.

In the long-term, what constitutes state support to business is an effective and specific, as well as systemic pro-export policy. In the short-term it is the active support to business foreign missions, support to the participation at important fairs in priority or special countries and the expansion of the portfolio of services that ensure exporters state financial and institutional support.

In the case of the Slovak Republic, taking into consideration its market size, geographic position, lacking natural resources and other absent comparative advantages, no other road to developing the Slovak economy is realistic other than excellence in international trade.

Such a process should become the long-term national strategy which will gradually be reflected in a faster and predictable development of the domestic economy, an increase in the economy of labour, a more effective transformation of the structure of production and domestic resources.

The result may be a complete elimination of negative impacts resulting from insufficient production capacities. By effectively utilizing development policies based on a rational growth of specialization, the optimization of conditions of domestic production and a higher concentration of the effective utilization of available resources, it is possible to accelerate domestic growth and steadily enhance the position of Slovak producers on the international markets.

A pro-export policy and its effective utilization in the growth potential of the Slovak economy is possible, only when the supply possibilities of the domestic market increase, which requires a high level of inventiveness of domestic companies. At the moment direct foreign investment dominate our export. Its impact on the Slovak economy has been and continues to be considerable and may be viewed positively. It was a mistake, however, or rather still is, that research and development was not supported simultaneously with direct foreign investment, with a subsequent creation of high added value industries.

Since 2005 Slovak export has achieved the highest level of growth that has been maintained until the outbreak of the world financial crisis in 2008 and the following global economic recession of 2009. Recovery came in 2010 and the growth of exports began to rise once more.

"Since 2015 however, regardless of the enduringly positive trade balance the growth of exports began to slow down and the positive trade balance had begun to decline. This decreased by as much as 68,43 percent between 2016 and 2019 from 3 367 million Euros in 2016 to 1 063 million Euros in 2019."

This unfavourable trend negatively impacts the state budget and other macroeconomic parameters of the Slovak Republic and is a result of enduring problems in the territorial and commodity structure of Slovak foreign trade.

The declining trend of Slovakia's export performance began as early as the end of 2017 and it fully emerged in the "pre-pandemic" era between 2018 and 2019.

In 2020 the positive trade balance of Slovak foreign trade reached a relatively high level at 2 714.5 million Euros, which, compared with the level of the positive trade balance of 2019 (1 063 million Euros) could indicate a positive result. Other factors, however, enter the equation.

This annual growth in the trade balance is not the result of an increase in exports but a significant decrease in imports caused by the global economic recession related to the COVID-19 pandemic. In numeric terms – comparing 2020 and 2019, exports decreased 6,1 percent yet imports decreased by 8,3 percent.

The reasons for this decline are: the inadequate commodity and territorial structure of Slovak export trade, stemming from an inadequate production base and resulting in a steady decline in competitiveness of Slovak products on foreign markets on the one hand and growing imports primarily from non-EU third countries on the other.

It is becoming clear that an overreliance of Slovak exports on EU markets turn into a great disadvantage in time of crisis. This negative trend is enhanced by the comparatively low quality of our exports, with an overly high dependence on automobile and electrical engineering industries, low added value goods and low territorial diversification. It is therefore vital to increase the number of countries to which we wish to export and to increase the supply portfolio of Slovak producers.

"Slovakia's export performance has been high in the long-term and exceeds 90 percent, yet in recent years it has been falling (according to ITC, 2021)."

By its size relatively small, Slovakia's economy is therefore existentially dependent upon the level of its exports and its export performance, similarly to economies of states with a comparable population size – Denmark, Finland, Croatia, Ireland or Slovenia.

The added value of Slovak export shows itself to be problematic as well. For a long time, Slovak imports have been dominated by goods intended for secondary processing and subsequent reexport and in the period of 2016-2017 such goods accounted for 71 percent of overall Slovak imports.

In 2014 the share of Slovak exports to EU markets rose to 83,9 percent, the main export market being Germany (21,9%), followed by Czechia (12,6%) and Poland (8,2%). In 2019 this share rose yet again to reach 84,2 percent and its target country structure remained similar (Germany 22,3%, Czechia 11% and Poland 7,5%).

The diversification of the territorial export structure as set out in the *Foreign Economic Relations Strategy 2014-2020* failed to materialize in the space of those six years. On the contrary, the dependence of Slovak exports on EU markets increased further.

In 2020 the territorial structure of Slovak foreign trade witnessed a change. From the point of view of the main economic blocks, exports to EU countries declined by 7,3% to a total of a 78,3% share of overall Slovak exports. Overall exports to OECD countries constitute 87,5% of exports, while decreasing by 6,6 percent.

OECD evaluates the situation of the Slovak Republic as problematic, especially in the small and medium enterprises segment. Only 8 percent of small and 30 percent of medium sized enterprises export goods and services outside the EU.

When we compare export statistics of OECD member countries to non-EU markets we see that on average 15% of small and 37% of medium sized enterprises of these countries export outside the EU.

Export Performance of the Slovak Economy

In 2014 three groups of goods (HS87 – vehicles, HS85 – electrical machinery and equipment, H84 – machinery and appliances) constituted 58 percent of the commodity make-up of Slovak exports. In 2019, before the break out of the pandemic, these three commodity groups constituted a 63 percent share.

“Such a structure not only does not correspond to the goals of a pro-export policy but it directly threatens the economic security of the Slovak economy and in times of recession of target markets may lead to a significant slowdown or perhaps even the collapse of the economy.”

In 2020 marked by the COVID-19 pandemic, this share rose by a further 1 percent and reached the level of 64 percent!

Thanks to an inflow of direct foreign investment (Volkswagen A.G., PSA Slovakia, Kia Motors, Jaguar Land Rover) the automotive industry employs 135 thousand employees directly and 250 thousand employees indirectly with an annual production of more than 1,1 million cars.

Initially the arrival of foreign investors had a positive impact on our economy, particularly for the reason of lowering unemployment, the growth of exports and higher revenues. However, there was no parallel development of R&D, new sophisticated branches of industry with a high added value to go with the expansion of the automotive and electrical engineering industries. Slovakia missed this opportunity to kickstart the production of high-end technologies and their subsequent export.

The problem is, aside from a few exceptions, that there is a lack of first-rate Slovak or foreign producers to stand alongside the automotive producers, that would contribute a high added value and a greater diversification and quality of Slovak exports. This would in turn contribute to more know-how skills for the workforce and a higher level of automation to the development of the nation.

An increase in the competitiveness of Slovak production is possible only by an increase of its innovative potential, which is achieved only by way of developing human potential. For a long time now, however, Slovakia has been losing its standing in high-school test scores and is falling to the bottom of the heap of developed countries and in some instances to the level of developing countries.

Further still, industry 4.0 and COVID-19 have strengthened the trends of job transformation, without which the development of production capacities and a resulting assertive foreign export will not be possible.

Therefore, the production basis of the Slovak Republic will not be competitive without a fundamental change of the education system with the critical emphasis on quality. These changes must be conceptual and long-term and must go beyond a single political election cycle, as is the case with the debt brake or the energy network development plans. Undervalued teachers, an outdated acquis and the absence of modern skills in the education system will deal a blow to Slovak competitiveness and subsequently to the added value of its exports.

An insufficient performance on third country markets represents a sad peculiarity of Slovak export. Economic diplomacy should lend a helping hand in this regard. However, without a revolutionary change in economic diplomacy, its direct and measurable contribution to Slovak SMEs, no adequate growth of exports to these countries can be expected. Such a quantitative and qualitative change would bring with it a compensation for the territorial imbalance in foreign trade with China, the Russian Federation, South Korea, Vietnam, SAE or the countries of the west Balkans.

Low carbon and eco-friendly GDP (European Green Deal, Fit for 55 a. o.) are becoming dominant themes in the EU and this will create substantial pressure on primarily industrial economies, such as Slovakia. Innovation and a necessary sharp rise in commercial R&D investment on the part of the private sector, along with the established of an educational and research infrastructure in Slovakia on the part of the public sector, will determine the level of assertiveness of Slovak exports until 2030.

A highly open Slovak economy is especially dependent on the economic performance of foreign markets. In this era marked by the pandemic, however, the government must actively and effectively support the recovery and growth of export enterprises.

In the long-term, what constitutes effective government aid is an effective a direct pro-export policy and in the short-term it is the active support for business foreign missions and the participation of companies in important fares in priority countries, as well as broadening the portfolio of services that guarantee exporters governmental financial and institutional support.

Foreign Trade and the Global Economy in the Pandemic Era

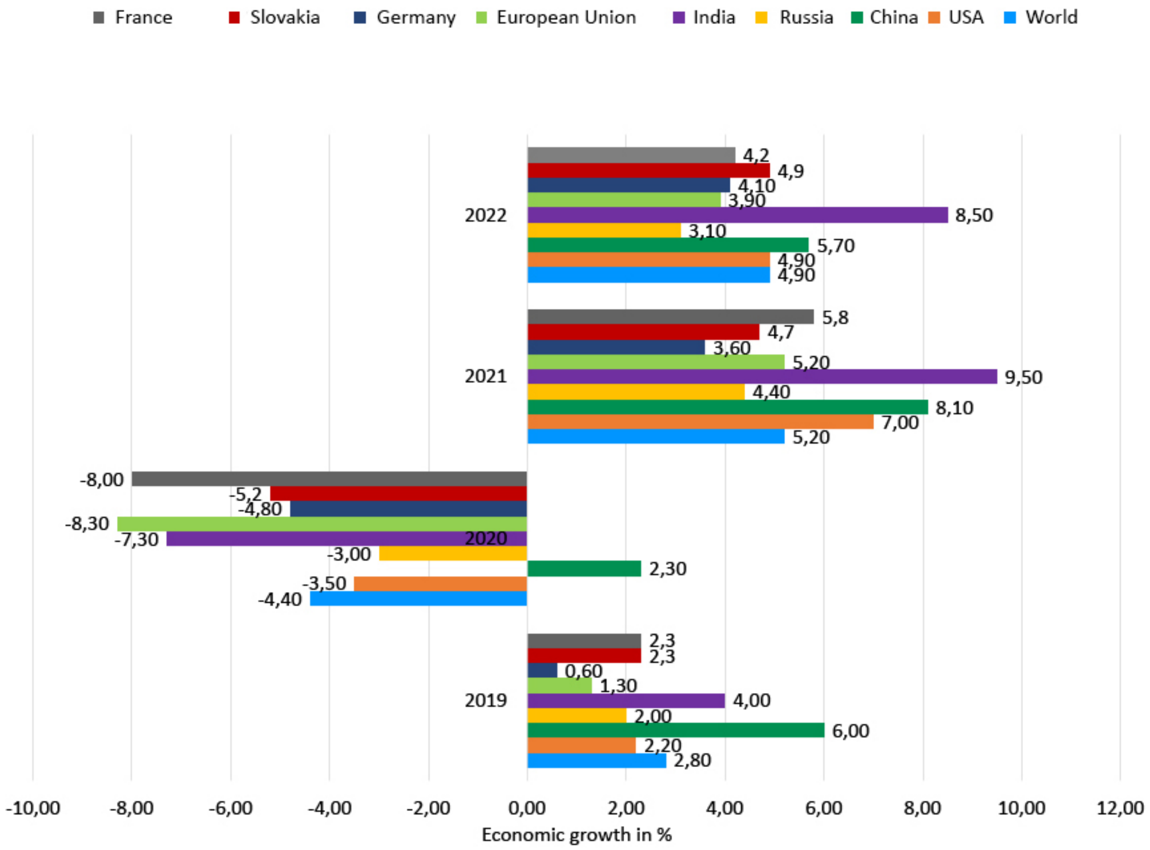
The world economy, as a whole, stands on the specialization of individual countries, at the core of which lies the theory of comparative cost and resulting theory of comparative advantage, which represents the foundation for the current system of international trade.

The global COVID-19 pandemic brought with it the instability in international trade, when the principle of comparative advantage did not function effectively. Revenues of specialized states with exports dependent on one or two specific products became fragile on the global market, the pandemic caused the collapse of supply chains and an uncertainty in increasingly fragmented global value networks. Many governments ordered the temporary closure of businesses but many businesses themselves voluntarily adopted such measures.

Closure of borders, decrease in production, domestic and foreign demand resulted in smaller import-export volumes globally. As soon as January 2020, the International Monetary Fund predicted a global economic growth of minus 3,5 percent. Many developed economies closed the economic year with a loss of growth: USA – 3,5%, Germany – 4,8%, France – 8,0%, the United Kingdom – 10% and Russia 3%, not only confirming the IMF’s prediction, but surpassing it.

China on the other hand, where the pandemic erupted at the end of 2019, witnessed a gradual revitalization and economic growth at the level of 2,3% growth of GDP as early as the middle of 2020, higher than the IMF prediction. And although this was the slowest growth for more than three decades, it was still sufficient to maintain China’s first place in the global economic growth. A more detailed estimate of the development and prediction of the world economy and its biggest players in 2019-2022 is shown in graph 1.

Graph 1: Development and prediction of growth of specific economies since the COVID-19 pandemic from 2019 to 2022 (in percentages).



Source: IMF, 2021. Data for the Eurozone, IMF 2020.

The are several reasons why it is necessary to pay adequate attention to the issue of foreign trade and export especially.

Foreign trade is one economic parameter used by experts to determine the competitiveness of a country. It is considered as a stimulus to economic growth of a country, it is an important determinant influencing its long-term solvency, international credibility and its overall economic rating, which is in turn important for its attractiveness to foreign investors. All economic outputs and inputs in and out of the national economy are realized by way of foreign trade regardless of its utility – physical goods, know-how, patents, inventions, copyrights and regardless of their place of origin. In its narrow definition, foreign trade is regarded as the exchange of tangible goods, while in its broader meaning as the movement of goods and services.

Export and import are of immense significance to national economies and companies operating within them. For businesses, export means the expansion of production, achieving economies of scale, growth of profit and resources from sales, parts of which they may invest in R&D, the purchase of new technologies, growing their competitiveness, in short, contribute to the development of the company.

For national economies, export is almost of existential importance, determining overall living standards, tax revenues, domestic retirement pay levels, the possibility of growing savings, investment, employment, and aggregated domestic demand. It also has a positive effect on payment balance, the currency, as well as internal and external economic equilibrium. This also holds true for the effects of imports, which is either necessary as in the case of natural resources, technologies, patents or advantages, resulting in lower prices, higher rates of consumption and saving. It therefore contributes heavily to the economic growth of a country, GDP growth, as well as exchange incomes.

It is possible to define the importance of foreign trade to an economy by many methods. Most often it determines the relationship between overall volume of what is produced in the country and the volume of overall consumption in a specified period (1 year for example). It is therefore the relationship between GDP, domestic demand (DD) and pure export, while pure export represents the difference between the export of goods and services (X) and imported goods and services (M), i. e.:

$$\boxed{GDP = DD + X - M}$$

Foreign trade is of the utmost importance for the national economy and most often is evaluated from the point of view of its economic, political and cultural significance.

The world economy represents a process of a broad spectrum of connections among national economies by way of international economic relations. It is analysed and predicted according to specific growth tendencies, structures, relationships, mechanisms and factors. At this stage of global economic development, it is neither possible to produce a broad spectrum of goods effectively and in large quantities, nor to distribute them and provide them with necessary services and support by individual states and companies. The key requirement of an effectively functioning and growing global economy is therefore the enhancement of the international division of labour.

Theory and practice both confirm that the smaller the economy of a country is, and the more acute the absence of developmental, especially natural resources is, the greater the need of taking part in the international division of labour. This fact then actively informs the growth and development of the internal structure of an economy and potentially creates a base for growth of flexibility, adaptability and effective production, by which it also increases the level of competitiveness of a given economy (for example by minimising the consumption of all kinds of inputs, energies and raw materials).

The level of dependence of smaller economies on exports and imports is greater than in the case of bigger economies

"Foreign trade represents an essential part of healthy economic growth of medium and small economies with a population up to 20 million inhabitants."

The level of economic dependence on export measured as the share of export on GDP in these countries has been oscillating in the long-term, or in other words surpasses the level of 70% (e. g. Slovakia, Czechia, the Netherlands, Ireland and others).

That is why governments of smaller states with populations up to 20 million must pay special attention to foreign trade relations and to the support of exports.

In the case of big economies, like the USA, Brazil, Russia or China, export as a share of GDP does not exceed 25 percent. Even though these countries are also big exporters and importers in absolute numbers, their production and economic growth is primarily adequately covered by domestic demand.

Foreign Trade and the Slovak Economy

Slovakia's international position and that of its foreign trade policy have been conditioned by many factors. From a historic, political and geographic perspective Slovak foreign trade is determined by common developments with Czechia from the Czechoslovak era. Up to 1948 the economy was tied and oriented towards markets of central and western Europe, after 1948 the Czechoslovak economy adapted the political and economic reality of post war Europe and the influence of the USSR.

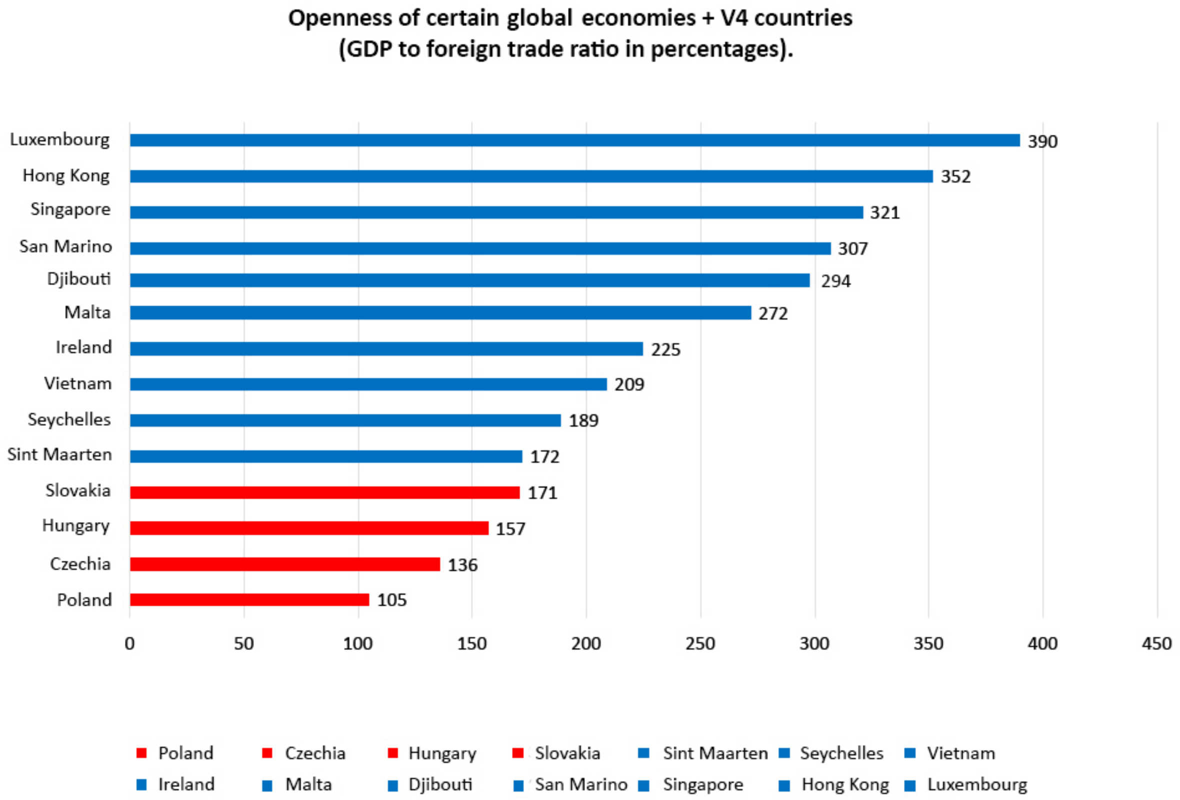
Traditional domestic producers and exporters of strong industries up to that time (garments, textiles, leather, glass, footwear) were gradually pushed out from their previous markets in western Europe and foreign trade relations with these countries quickly declined. The collapse of the USSR at the beginning of the 1990s manifested itself mainly on the side of Czechoslovak export markets and the gradual loosening of mutual economic dependence predestined Czechoslovakia and later Slovakia to a deeper integration with the EU.

Along with the accession to the European Union changes also took place in the evolution of Slovak foreign trade and foreign relations. Slovakia began to apply the principles of the common trade and agricultural policies of the EU. As the European Economic Area opened up to Slovak exporters, greater liberalization was effected also in relation to countries outside the Area. The network of foreign trade treaties of the Slovak Republic was adjusted.

Export is foundational to the macroeconomic development of Slovakia. The Slovak Republic, determined by a small population and small territory, with a definite manufacturing potential, is substantially dependent on participation in foreign trade.

"In 2018 Slovakia was only the 60th economy in the world according to GDP, which amounted to only a 0,12 percent share of the global economy (IMF, 2019). In 2020 Slovakia was the 11th most open economy in the world and the most open economy from the V4 (graph 2)."

Graph 2: Openness of certain world economies + V4 countries (GDP to foreign trade ratio in percentages).



Source: World Bank, 2021. Available at: https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS.

These results confirm the existential importance of foreign trade to the economic growth of Slovakia's national economy. In the case of the Slovak Republic, taking into account its market size, geographic location, lacking raw materials and other non-existent comparative advantages, there is no other realistic way for the Slovak economy to grow other than to excel in foreign trade on the EU27 markets and to substantially increase its export competitiveness on the markets of quickly growing third countries.

If this process becomes a long-term strategy of the country, it will quickly transform the growth of domestic economy for the better, improved economies of domestic labour, effective transformation of the structure of production and internal resources. The result may be a complete elimination of negative impacts resulting from insufficient production capacities.

By effectively utilizing development policies based on a rational growth of specialization, the optimization of conditions for domestic production and a higher concentration of the effective utilization of available resources, it is possible to accelerate domestic growth and steadily enhance the position of Slovak producers on the domestic and international markets.

Slovak Foreign Trade Evolution since EU Accession

It is important to evaluate the state of Slovak foreign trade in broader terms. After Slovakia's accession to the EU in 2004, a unified system of export aid was established. An effective pro-export policy represented a way for economic growth, increase of competitiveness and export performance, while foreign trade in this process was and remains an important tool.

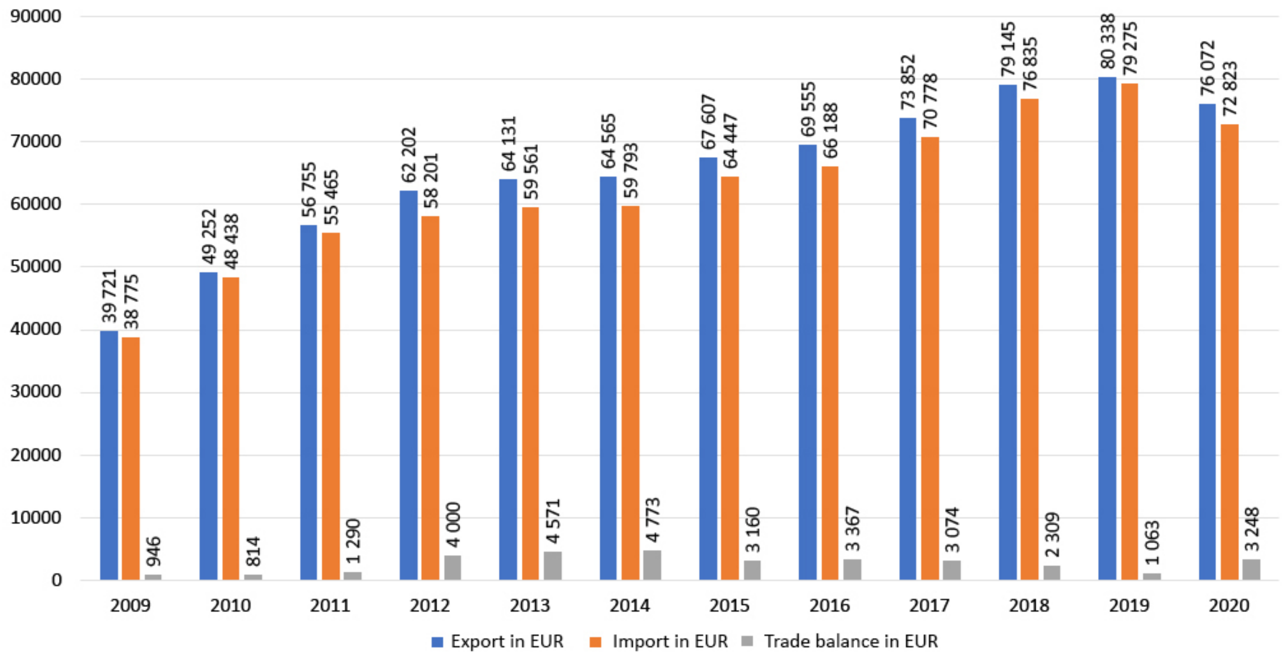
While analysing Slovak foreign trade since its birth to the beginning of the millennium, an adverse trade balance was evident. It was caused by markedly smaller exports compared to the growing volume of imports. On first glance, this fact could be seen as negative. However, after a closer analysis of the commodity structure of imports in this period; it becomes clear that this negative phenomenon was caused by incoming foreign investment and the purchase (import) of new machinery, equipment and high-end technologies, which subsequently kickstarted new production and resulted in substantial growth of Slovak export.

The impact of direct foreign investments within the Slovak economy was notable and may be evaluated positively, with the caveats mentioned above. Since 2005 Slovak export has achieved the highest level of growth that has been maintained until the outbreak of the world financial crisis in 2008 and the following global economic recession of 2009.

This huge expansion of Slovak exports was unfortunately halted by the world economic crisis of 2008-2009 and the volume of our foreign trade has declined by approximately 18%.

A halt to this declined arrived in 2010 and export began to increase again. Since 2015 however, regardless of the enduringly positive trade balance, the growth of exports began to slow down and the positive trade balance had begun to decline. It decreased by as much as 68,43 percent between 2016 and 2019 from 3 367 million Euros in 2016 to 1 063 million Euros in 2019 (see graph 3). While the long-term trend of growth of Slovakia's export performance (ratio of foreign trade to GDP) culminated in 2018, it has been slowly falling as well.

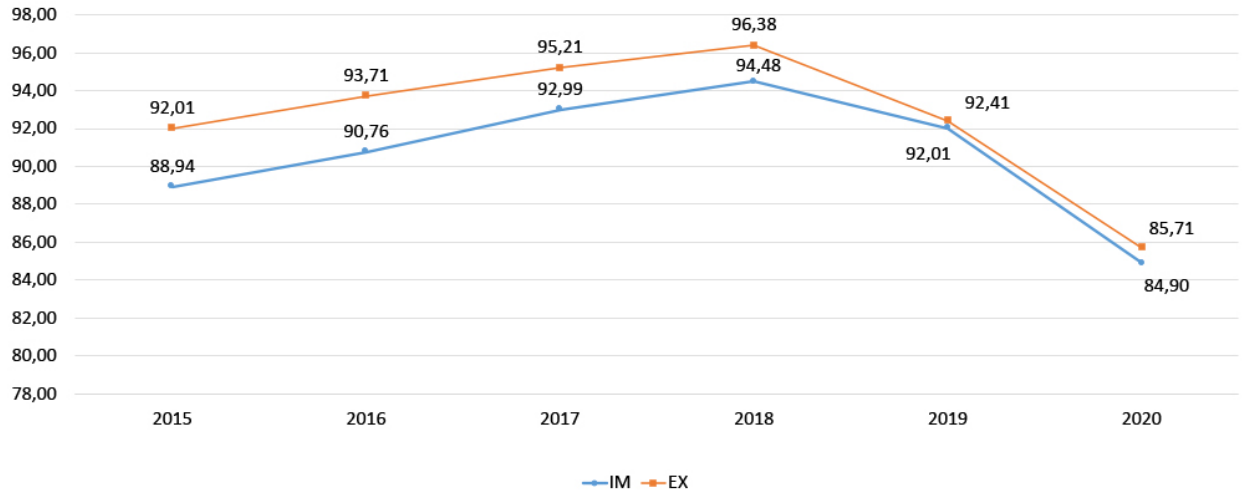
Graph 3: Evolution of Slovak foreign trade in 2009-2020 (goods, millions of Euros).



Source: Compiled from Slovak Ministry of Economy 2020 data and Slovak Trade Association data.

Decline is not unexpected and is primarily related to the insufficient commodity and territorial structure of Slovak export (graphs 6 to 11). The development of Slovakia's export performance as well as import strictness is shown in graph 4.

Graph 4: Development of Slovakia's export performance and import strictness 2015-2020 (export and import of goods and services/GDP in %)



Source: The World Bank, 2021.
Online: https://databank.worldbank.org/reports.aspx?source=2&series=NE.IMP.GNFS.ZS&country=#.

The adverse development of exports and export performance represents a marked decline with negative effects on Slovakia's state budget and the resulting consequences for the Slovak economy. It is the result of lingering problems of territorial, as well as commodity structure of Slovak foreign trade. These negative effects during this period were caused by a gradual cooling of the EU economy, especially the German economy, causing a slowdown in the flow of goods into Germany and other EU countries. This trend was evident as early as the end of 2017 and most prominently in 2018 and 2019, and this decline, bolstered by the global pandemic, continued throughout 2020.

The COVID-19 pandemic also impacted the development of Slovakia's foreign trade as an indelible part of the international market.

In 2020 the positive trade balance of Slovak foreign trade reached a relatively high level at 2 714.5 million Euros, which, compared with the level of the positive trade balance of 2019 (1 063 million Euros) could indicate a positive result, but this is not, in fact, the case. It is not the result of an increase in exports since these decreased 6,1 percent, but the result of lower imports which decreased by 8,3 percent.

The reasons for the stagnation and decline of export along with the export performance of the Slovak economy are many. This state is not the result of the global pandemic. The reasons for exports falling during the pandemic period are mostly because of the decrease in demand on the part of our biggest trade partners, as well as the insufficient commodity and territorial structure, subsequently evident in the gradual decline of competitiveness of Slovak products on foreign markets.

"The overreliance of Slovak exports on EU markets turn into a great disadvantage in time of EU's recession. This negative trend is enhanced by the comparatively low quality of our exports, with an overly high dependence on automobile and electrical engineering industries, low added value goods and low level of diversification, taking its toll on Slovakia's export performance."

Slovakia, with its five million inhabitants, but a high production capacity, has been achieving high export performance exceeding 90 percent in the long-term.

This confirms the fact that the small Slovak economy is existentially dependent on the level of export and export performance, just like the economies of Denmark, Finland, Croatia, Ireland or Slovenia for example, specifically countries with 5 million inhabitants or less.

In comparison with other V4 countries we mention Slovakia's export performance in the period from 2015 to 2020, to illustrate the broader context.

The WTO predicted a fall of global exports by 15-20 percent in 2020 as a result of the disruption of supply chains. Since V4 economies rank among those that are very pro-export, the region was to be one of the most strongly hit by the global recession. These concerns were not born out by reality, since demand in the largest of V4's export partners (France and Germany) rose.

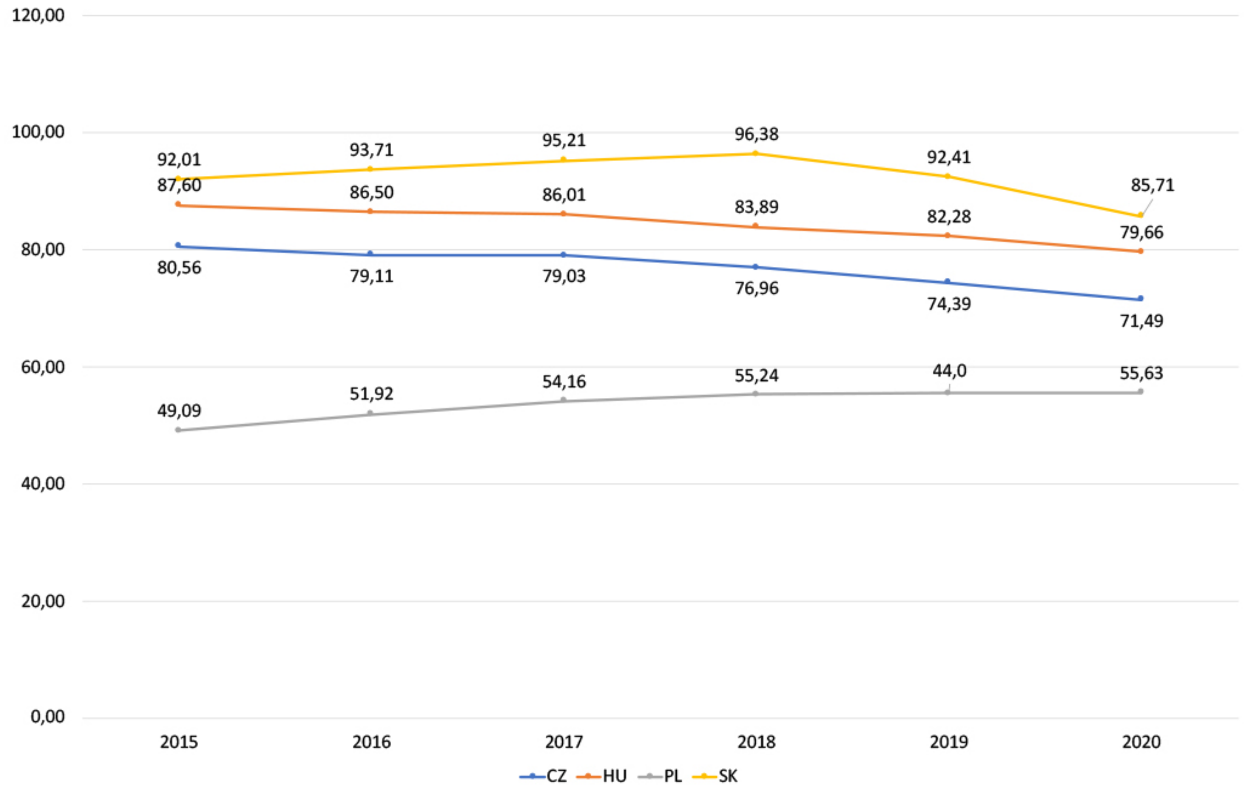
The lowest export performance can be found in Poland, which is understandable, since the Polish economy is driven not solely by export but also by a strong domestic demand of its 38 million inhabitants. Hungary and Czechia with 10 million inhabitants each are in a similar situation. Their export performance in 2015-2019 shows tendencies of slowing down even higher than in the case of Slovakia.

Data for 2020 is interesting, however, since the export performance of Hungary and Czechia rose by more than 10 percent. When we look more closely at the statistics and at the commodity structure of Czech exports without the services, then export of goods rose by as much as 18,0% annually, mostly due to the export of vehicles, machinery and transportation equipment.

In the case of Hungary the largest annual growth in export (2020/2019) was seen in the HS30 class – pharmaceuticals, but also in the HS10 class – grains and HS85 - electrical machinery and equipment. On the other hand, the largest decline was seen in HS87 – vehicles by as much as 17,6 percent.

"The Slovak economy saw a decline of export performance by 7,25 percent between 2019 and 2020 which was the highest decline from among all V4 countries."

Graph 5: Evolution of export performance of V4 countries in 2015-2020 (share of goods and services on GDP in %).



Source: The World Bank, 2021.
Online: https://databank.worldbank.org/reports.aspx?source=2&series=NE.IMP.GNFS.ZS&country=#.

Despite pessimistic outlooks predicting double digit losses of GDP in V4 countries, these views did not come about mostly because of a relative recovery of international commodity trade. Although V4 economies did end up in the red in 2020, in the case of Poland the interannual (2020/2019) decline was at the level of 2,7%, that of Hungary at 5,0% and Czechia at 5,6%.

Slovakia's GDP in 2020 decreased by 5,2%. Despite a turbulent year the production potential of central Europe remained intact. Donald Trump's policy of actively promoting the repatriation of American capital from abroad and the following global pandemic had a significant adverse effect on outsourcing of transnational corporations. These had created around half a million better paid jobs in the V4 countries, contributing to higher living standards.

Slovak Foreign Trade Territorial Layout

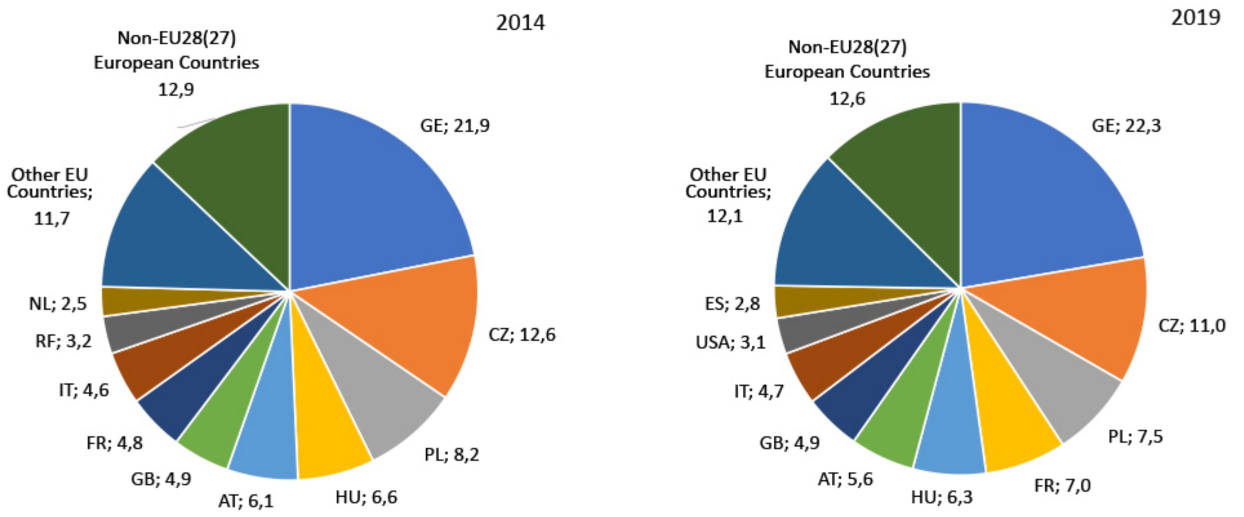
After looking at closer examination of results achieved by the evolution of exports and export performance of the Slovak Republic; we see an existential need to diversify the territorial, as well as the commodity layout of Slovak foreign trade.

Diversification of foreign trade (territorial and commodity-wise) was a priority goal as far back as the pro-export strategy for the period of 2014-2020. The implementation of this strategy was more than disappointing.

Comparing the territorial layout of Slovak export in 2014 as a base year when the current pro-export policy was kickstarted with the territorial layout of the same in 2019, i.e. before the global pandemic, which could distort data for 2020.

In 2014 the share of Slovak exports to EU markets rose to 83,9 percent, the main export market being Germany (21,9%), followed by Czechia (12,6%) and Poland (8,2%). In 2019 this share rose yet again to reach 84,2 percent and its target country structure remained similar (Germany 22,3%, Czechia 11% and Poland 7,5%). A closer look at the territorial layout of Slovak exports in the 2014-2019 period is shown in graph 6.

Graph 6: Territorial layout of Slovak export in 2014 and 2019 (%).



Compiled from Slovak Statistical Office Data Cube data – Foreign trade statistics – HS4, 2020.
Available at: https://conferences.euba.sk/merkur/.

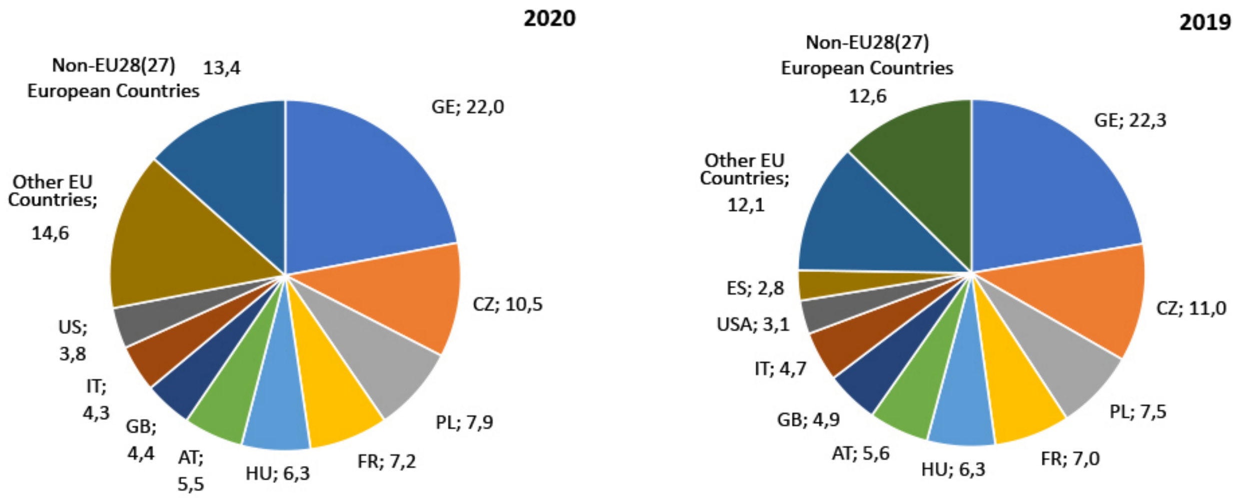
"The diversification of the territorial export structure as set out in the Foreign Economic Relations Strategy 2014-2020 failed to materialize in the space of those six years. On the contrary, the dependence of Slovak exports on EU markets increased further."

This despite clearly quantified targets and defined priority regions for Slovak exports failed to increase the competitiveness of Slovak exporters in these countries. On the contrary, their share of Slovak export fell further in the period 2014-2020.

This fact represents a great risk to the Slovak economy and attests to the insufficiently elaborated and insufficiently broad spectrum of support to exports. This, of course, is the result of a badly set up production, insufficient support for SMEs and R&D. In time of an EU recession Slovak producers have no third country export markets to fall back on, which could stimulate our economy and soften negative impacts.

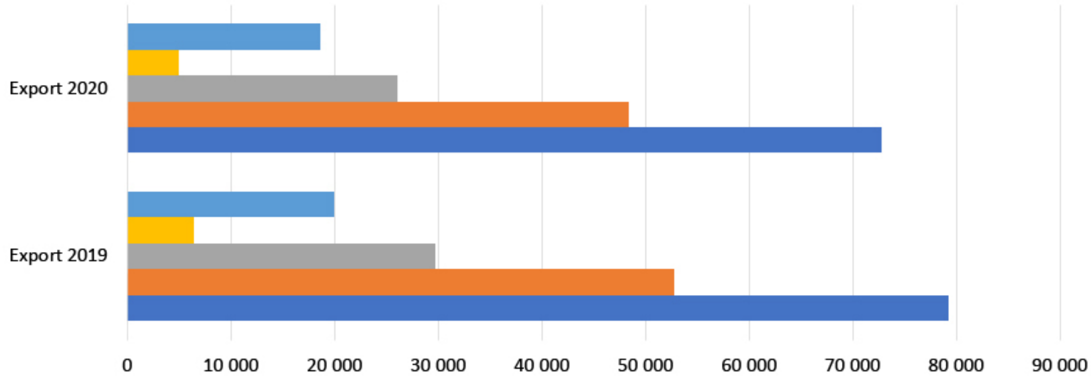
In 2020 the territorial structure of Slovak foreign trade witnessed a change. From the point of view of the main economic blocks, exports to EU countries declined by 7,3% to a total of a 78,3% share of overall Slovak exports. Overall exports to OECD countries constitutes 87,5% of exports, while decreasing by 6,6 percent.

Graph 7: Comparison of territorial layout of Slovak exports in 2020 and 2019 (%).



Compiled from Slovak Statistical Office Data Cube data – Foreign trade statistics – HS4, 2020.
Available at: https://conferences.euba.sk/merkur/.

Graph 8: Comparison of territorial layout of Slovak exports according to economic bodies in 2020/2019 (in millions of euros).



	Export 2019	Export 2020
V4 Countries	20 011	18 682
Europe excluding the EU28 (including the UK)	6 380	5 013
Third countries (including developed ones)	29 715	26 117
OECD	52 823	48 370
Total	79 275	72 823

Source: Slovak Ministry of Economy 2021, Slovak Trade Association data.

Commodity Structure of Slovak Foreign Trade

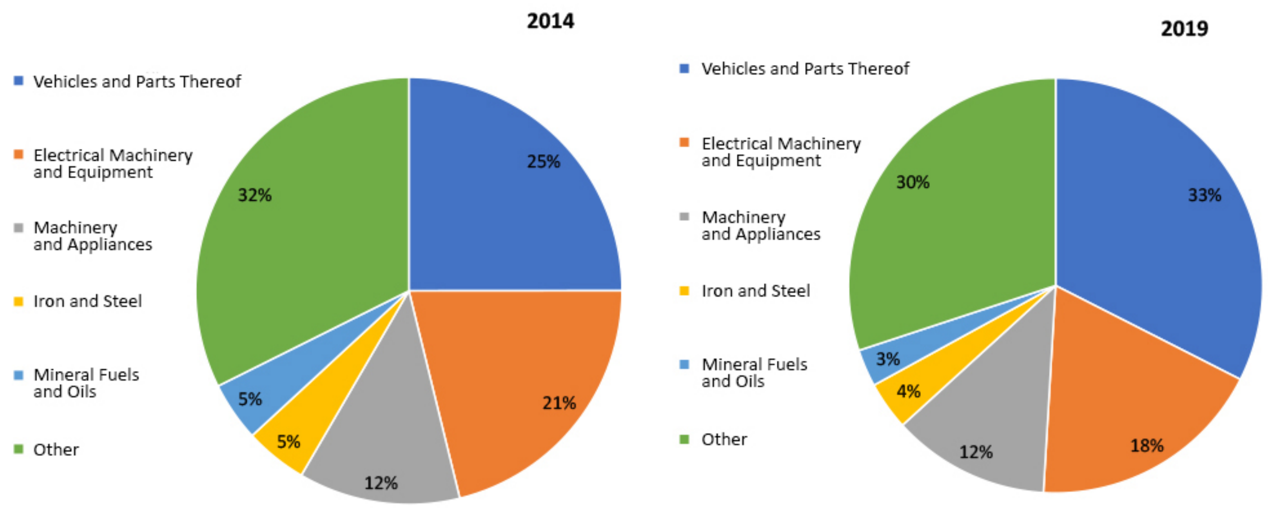
The commodity structure of Slovak export is not optimal, it is concentrated on exporting a small group of goods. That is why the goal of greater diversification was set out in the pro-export policy of the Slovak Republic for the 2014-2020 period.

While in 2014 three commodity groups – vehicles, electrical machinery and equipment, machinery and appliances comprised 58 percent of Slovak export, in 2019 there three groups comprised a 63 percent share.

The dominance and a long-term share of three commodity groups does not correspond with the goals of a pro-export policy, but directly threatens the economic security of the Slovak economy. In times of recession of target markets (EU) it may lead to a significant slowdown or perhaps even the collapse of the economy. An interannual comparison of Slovak exports are shown in graphs 9 and 10.

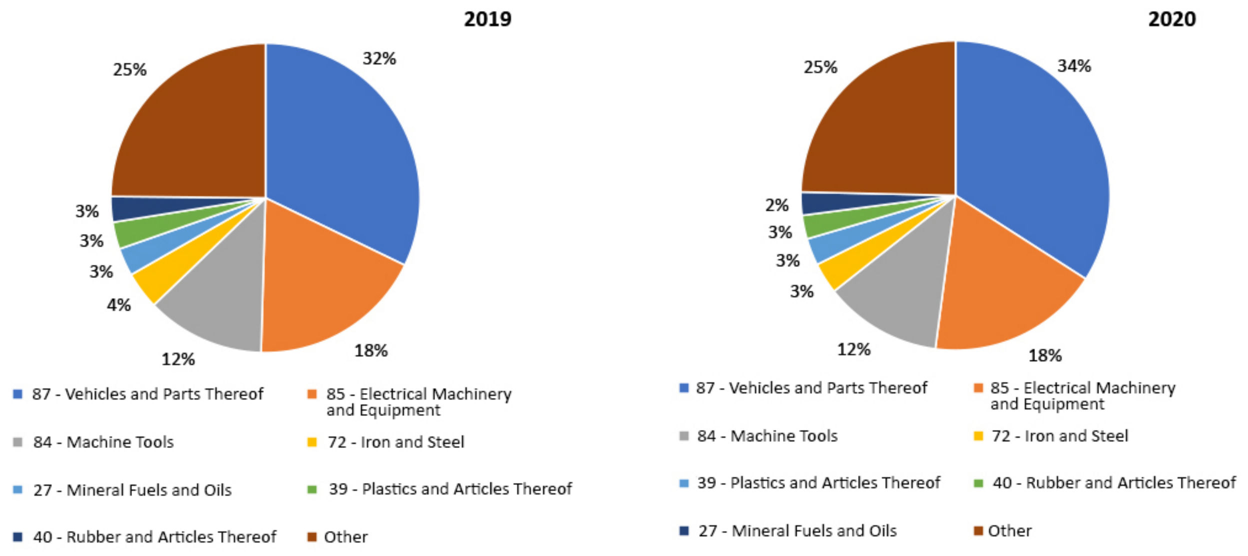
"In 2020 marked by the COVID-19 pandemic, this share rose by a further 1 percent and reached the level of 64 percent!"

Graph 9: Comparison of the commodity structure of Slovak export 2014 and 2018 (%).



Source: Compiled from Slovak Statistical Office Data Cube data – Foreign trade statistics – HS4, 2020.
Available online: https://conferences.euba.sk/merkur/ .

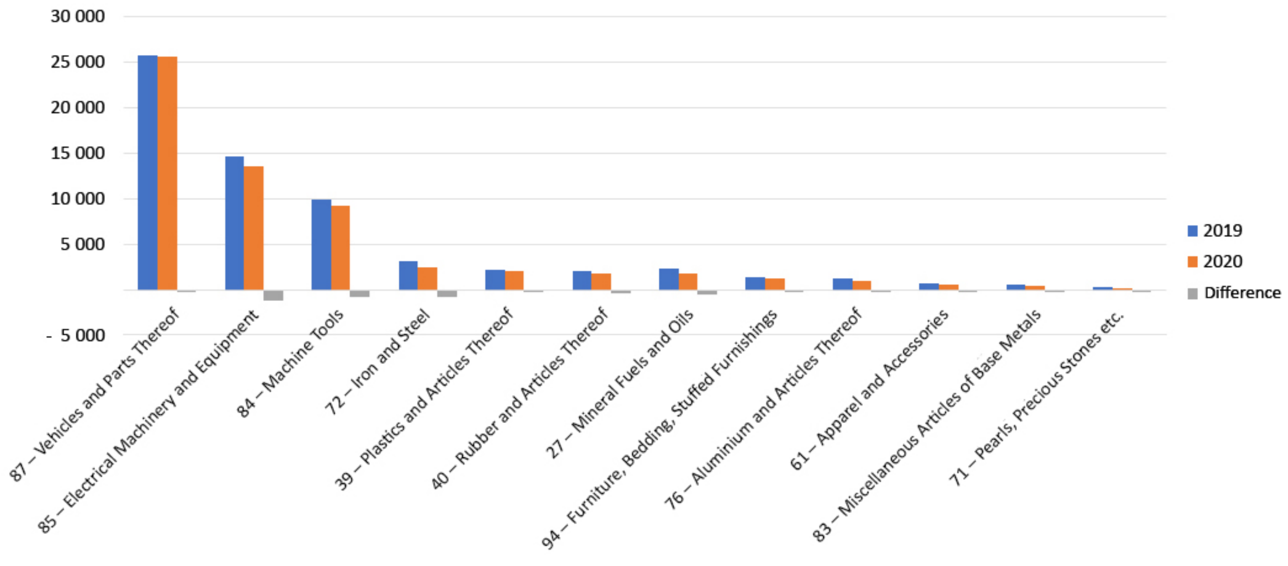
Graph 10: Comparison of the commodity structure of Slovak export in 2019 and 2020 (%).



Source: Slovak Ministry of Economy 2021, Slovak Foreign Trade Data.

The 2019/2020 interannual comparison of 12 largest commodity groups exported by Slovakia in Euros is shown in the following graph nr. 11.

Graph 11: Comparison of the commodity structure of Slovak export in 2019 and 2020 (in millions of euros, largest commodity groups exported).



Source: Slovak Ministry of Economy 2021, Slovak Foreign Trade Data.

The inflow of direct foreign investment around the end of the millennium was an advantage but the second decade of the new millennium proved a problem.

The long-term dominance of the automotive industry which is the backbone of the Slovak economy with a 50 percent share of industrial production and 13 percent share of national GDP is currently shown to be a risk factor for the economic growth of international competitiveness. It is important to say that the automotive industry is a great engine of export, but it must concentrate on domestic companies as in Germany, tied in with innovation, commercial services and added value created domestically.

The automotive industry in Slovakia (Volkswagen A.G., PSA Slovakia, Kia Motors, Jaguar Land Rover) employs 135 thousand employees directly and 250 thousand employees indirectly with an annual production of more than 1,1 million cars.

However, the arrival of foreign investors in our economy and their production cannot be evaluated negatively. On the contrary. Initially it had a positive impact on our economy, particularly for the reason of lowering unemployment, the growth of exports and higher revenues. However, there was no parallel development of R&D, new sophisticated branches of industry with a high added value to go with the expansion of the automotive and electrical engineering industries. Slovakia missed this opportunity to kickstart the production of high-end technologies and their subsequent export.

But for a few exceptions, there is currently a lack of high-quality Slovak production, or foreign production with a high added value in Slovakia, which could contribute to a greater diversification and quality of Slovak export. This kind of production is connected to the need to higher level of know-how and skills of the work force, level of automation and digitization of information flows, a megatrend known as Industry 4.0. The unchanging and inadequate state of the commodity structure of foreign trade are documented by graphs 10 and 11 above.

From the commodity viewpoint the decline in exports occurred in monitors and projectors, TV sets by 563 million Euros, crude oils, and bitumen oils other than crude ones by 346,7 million Euros, flat rolled products from iron or unalloyed steel heat rolled by 214,9 million Euros, electrical signal and lighting equipment by 209,6 million Euros and new dry rubber tires by 208,7 million Euros. Wheat and rye exports saw the greatest increase by 76,5 million Euros along with central heating furnaces by 73 million Euros.

For a better overview of the commodity structure development of Slovak export in the longer term we present Table 1, arranged according to HS2 classes of the customs rate table between 2016 and 2020.

Table 1: Overview of commodity structure development of Slovak foreign trade for the 2016-2020 period (HS2, in millions of Euros).

HS Code	Value 2016 (mil. €)	Share (%)	Value 2017 (mil. €)	Share (%)	Value 2018 (mil. €)	Share (%)	Value 2019 (mil. €)	Share (%)	Value 2020 (mil. €)	Share (%)
Export Total:	70 032,20		74 813,30		79 144,50		80 459,50		75 436,30	
87 – Vehicles and Parts The-reof	19 904,00	28,42	19 964,90	26,69	23 762,91	30,02	26 122,59	32,47	25 839,00	34,25
85 – Electrical Machinery and Equipment	14 404,20	20,57	15 497,30	20,71	15 266,84	19,29	14 861,95	18,47	14 696,30	19,48
84 – Nuc-lear Reactors, Boilers, Machi-nery	8 774,30	12,53	9 134,80	12,21	9 485,23	11,98	9 904,79	12,31	9 945,50	13,18
72 – Iron and Steel	2 744, 80	3,92	3 496,20	4,67	3 680,27	4,65	3 044,08	3,78	3 133,00	4,15
27 – Mineral Fuels and Oils, Bituminous Substances	2 324,10	3,32	3 371,10	4,51	2 388,21	3,02	2 341,33	2,91	2 339,30	3,10
39 – Plastics and Articles Thereof	2 150,30	3,07	2 313,50	3,09	2 383,79	3,01	2 267,41	2,82	2 274,90	3,02
40 – Rubber and Articles Thereof	2 073,60	2,96	2 164,60	2,89	2 245,48	2,84	2 173,59	2,70	2 149,50	2,85
73 – Articles of Iron and Steel	1 612,80	2,30	1 712,10	2,29	1 930,66	2,44	1 852,43	2,30	1 864,30	2,47
94 – Furniture, Bedding, Lamps	1 425,50	2,04	1 478,90	1,98	1 594,31	2,01	1 494,43	1,86	1 494,60	1,98
76 – Aluminium and Articles Thereof	1 000,70	1,43	1 117,70	1,49	1 281,55	1,62	1 227,08	1,53	1 235,00	1,64
Total	**56 414,30**	**80,55**	**60 251,10**	**80,54**	**64 019,25**	**80,89**	**65 289,68**	**81,15**	**64 971,40**	**86,13**

Source: Slovak Ministry of Economy 2021, Slovak Foreign Trade Data.

"The Slovak economy is intensely tied to the export of products of foreign investor which are present in the Slovak economy because of a very favourable ratio of productivity and labour costs."

The core of their industrial production, however, is based around finalizing of products and less around their R&D, design, marketing and other phases of the value chain of the automotive industry which has a very high added value. An overview of the greatest exporters shows a very small share of domestic exporters.

Because of the above mentioned reasons the prospects for growing macroeconomic benefits of Slovak exports in the post-pandemic era are fairly pessimistic. The reasons for this are mainly the growing demands for digital skills and related jobs in industrial production, which unfortunately are not sufficiently represented on the Slovak labour market. On the other hand, the falling share of the 10 largest companies on overall exports of the Slovak Republic are a positive. This fact confirms the rationality of supporting the exports of Slovak SMEs, which we can assume would create a continuity in added value, growth of volume of exports and macroeconomic benefit multipliers in the national economy.

An overview of the largest exporters in 2019 and 2018 is presented in Table 2.

Table 2: Largest exporters of the Slovak Republic – TOP 10 in 2019 and 2018

	Corporation	Export 2019 v mil. €	Export 2018 v mil. €	2019/2018 in %
1.	Volkswagen Slovakia, Inc., Bratislava	10 307	10 320	-0,1
2.	Kia Motors Slovakia, Ltd., Teplička nad Váhom	5 507	5 120	7,6
3.	PCA Slovakia, Ltd., Trnava	3 156	2 748	14,9
4.	Slovnaft, Inc., Bratislava	2 100	2 378	-11,7
5.	Samsung Electronics Slovakia, Ltd., Galanta	1 440	1 760	-18,2
6.	Slovenské elektrárne, Inc., Bratislava	1 321	1 298	1,8
7.	Foxconn Slovakia, Ltd., Nitra	1 205	1 205	0,0
8.	Schaeffler Slovensko, Ltd., Kysucké Nové Mesto	1 064	1 132	-6,0
9.	Continental Matador Rubber, Ltd., Púchov	992	879	4,9
10.	Mondi SCP, Inc., Ružomberok	694	763	-9,1

Source: Compiled from Trend (2021) data; Data for 2020 unavailable at time of writing.

The proof of an insufficient commodity structure of foreign trade related to the relatively low quality of Slovak SMEs' exports as well as the relatively low level of added value is the indicator of international trade measured according to added value (Trade in Value Added).

In 2016 for example, the Slovak Republic also had, in an international context, a large share of imported value on gross export, at the level of 44,5 percent, which is not unusual for an economy of its size. From among the listed economies, however, a lower parameter of domestic added value was achieved only by Luxembourg and Malta.

In the case of the automotive industry, the TiVA parameter (measured as a share of domestic added value on gross export) reaches only a 40 percent mark. This confirms the dependence of Slovakia's established automotive companies on importing goods and services for modern production from foreign suppliers, since the domestic Slovak market does not have the capacities, know-how or price competitiveness to meet these demands.

This conclusion is supported by data on the import of consumption goods which clearly prove that in 2015 as much as 68,3 percent of consumption imports were intended for reexport and in 2016 this parameter achieved the level of 71,6 percent, while only 28,4 percent was intended for domestic consumption.

The average import of consumption goods of OECD countries is around 38,5%. The largest percentage for the automotive industry was achieved by Japan (10,4%), Brazil (14,8%) and China (15,8%). Among the reasons for such success may be counted the size of the market, as well as the level of protectionism in automobile importation, the presence of foreign automobile producers through direct foreign investments, but primarily the ability to commercially apply R&D outputs by domestic automobile producers and a greater "self-sufficiency" in importing key innovative services and components.

Table 3: Position of Slovakia in GVC and added value production in international trade 2005-2016

Foreign added value share of gross export - total

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Slovakia	43,0	46,5	46,1	45,1	41,9	43,9	46,7	46,6	46,8	45,9	44,8	**44,5**
Hungary	44,0	46,2	45,9	46,7	43,5	47,5	47,8	47,0	46,1	46,0	43,1	**44,1**
Czechia	34,4	35,6	36,3	35,5	33,3	37,2	38,7	39,3	38,9	39,7	39,3	**37,7**
Poland	24,7	27,2	27,7	27,8	24,4	26,9	28,4	27,3	27,3	27,5	26,6	**26,9**
Germany	18,6	20,4	21,1	21,4	18,1	21,5	23,2	23,1	22,4	21,7	21,0	**20,3**
Austria	25,5	26,5	26,6	27,2	23,3	28,0	29,7	29,9	29,5	28,7	26,5	**26,6**
Great Britain	14,3	15,0	14,9	16,6	15,9	17,5	18,8	18,8	18,0	16,3	15,1	**15,4**
EU 13	32,9	34,8	35,0	35,0	31,8	34,7	36,2	35,9	35,2	35,0	33,9	**33,3**
EU 28	22,1	23,8	24,3	25,3	22,3	25,0	26,5	26,7	26,0	25,6	24,6	**24,3**
USA	10,8	11,4	11,7	12,9	9,4	11,1	12,7	12,4	11,5	11,2	9,5	**9,0**
China	26,3	25,9	24,8	23,0	19,5	21,1	21,7	20,8	20,4	19,5	17,3	**16,7**
Japan	10,2	12,2	13,2	15,2	10,9	12,2	14,3	14,0	15,2	15,8	13,2	**11,4**
India	18,8	20,6	20,7	24,5	21,8	23,7	25,1	25,1	24,8	23,0	19,1	**16,1**
Russia	9,9	9,3	9,4	10,4	10,5	9,7	9,4	8,7	8,9	9,4	10,8	**10,2**
Turkey	15,4	17,5	18,1	19,6	15,7	17,2	19,4	20,5	19,1	18,2	16,8	**16,5**

Foreign added value share of gross export – example of automotive industry

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Slovakia	65,6	68,4	66,1	65,2	55,9	57,6	59,7	60,5	60,8	59,4	59,6	**59,9**
Hungary	55,7	57,6	58,1	60,6	57,2	58,7	61,0	64,4	64,2	64,5	54,4	**60,4**
Czechia	44,8	45,9	46,4	44,4	42,3	46,1	47,8	49,3	49,2	50,6	54,3	**50,5**
Poland	40,4	43,4	45,1	43,2	38,7	43,2	43,5	41,9	42,5	42,2	39,3	**42,6**
Germany	25,4	25,8	26,6	27,2	25,2	27,2	28,1	27,8	26,7	26,3	24,3	**25,5**
Austria	47,5	48,2	47,1	45,8	39,7	45,4	47,1	45,0	46,5	46,5	41,4	**44,6**
Great Britain	30,6	31,6	32,8	33,2	32,6	33,3	35,9	35,7	32,3	30,1	29,2	**31,0**
EU 13	49,1	51,4	52,1	51,4	45,8	48,7	50,2	51,9	52,1	52,7	51,4	**52,0**
EU 28	31,3	32,9	34,1	34,3	30,9	33,0	34,5	34,5	33,6	33,3	31,5	**32,7**
USA	24,0	24,6	26,7	27,1	25,7	26,1	27,6	26,3	24,6	26,3	23,7	**23,8**
China	22,0	22,1	22,1	20,3	17,4	19,4	20,7	19,3	19,4	19,3	16,3	**15,8**
Japan	8,7	10,7	11,5	13,5	9,4	10,8	12,4	11,6	12,9	13,6	12,0	**10,4**
India	25,3	27,1	28,1	33,2	29,0	32,5	33,9	32,8	33,7	31,3	28,1	**23,5**
Russia	29,1	29,7	31,0	36,6	29,1	30,3	32,1	31,6	33,2	31,5	30,5	**29,1**

Source: Compiled from Trend (2021) data; Data for 2020 unavailable at time of writing.

Conclusions and Systemic Measures

Conclusions

The importance of export as part of national economies of individual states is understood by political representatives and that is why they are striving to enhance the export performance of their economies in this environment of growing global competition. Not just at the level of the gross national export, however, but most importantly at the qualitative level, represented by the export of sophisticated products, high-end technologies, by a growing share of services on overall export, as key determinants of international competitiveness.

Many studies of Slovak foreign trade, including this one, show that without a fundamental investment in innovation or commercial use of R&D outputs an increase in the competitiveness of Slovak production on foreign markets and global value chains (mainly SMEs) is not possible. It is even possible to state that current jobs and Slovak export performance are under threat.

Large-scale investment in innovation, R&D and a competitive knowledge-based economy are necessary conditions for the improvement in these areas. To that end, the main instrument should be an effective economic and a subsequent systemic pro-export policy of the state, which currently is not a high enough institutional, fiscal nor educational priority. Changes, primarily involving the education system and its interconnectedness with the labour market must be made urgently.

What is the greatest weakness of Slovak export? Low sophistication of production, loss of competitiveness and advantage in an international context, as well as an overdependence on EU markets.

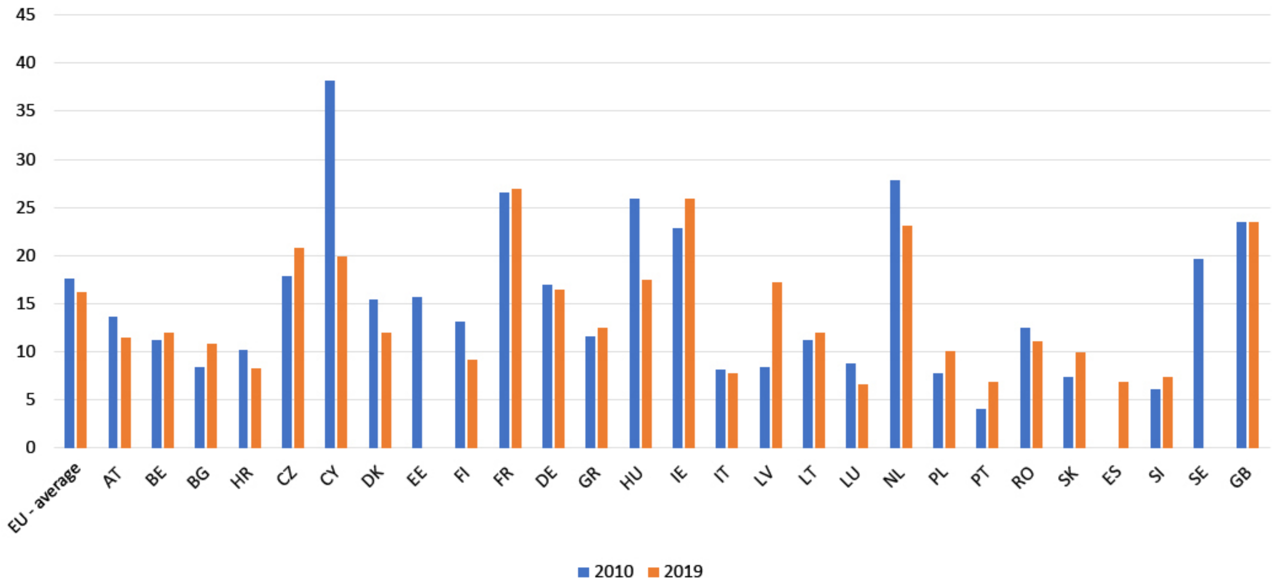
That is why we concentrated on analysing data on high-tech export on overall EU exports (as an EU average) and in Slovakia, comparing Slovakia with all other EU member countries concerning this parameter. And since these results are not positive (table 4 and graph 12) we also compared the intensity of R&D spending in the EU and Slovakia in the period 2010-2019 as a percentage of GDP, which provides clear evidence that the Slovak Republic is losing its competitive edge.

Table 4: Share of high-tech exports on overall EU and Slovak export in 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU 28 (EU 27)	17,6	16,8	16,7	17,2	16,6	17,4	17,6	16,0	15,5	16,2
SR	7,4	7,5	9,6	11,0	11,1	11,2	10,8	11,8	10,6	9,9

Source: The World Bank, 2021. Available online: https://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS.

Graph 12: Comparison of Slovak commodity structure 2020/2019 (in millions of Euros, largest export commodity categories)



Source: Compiled from World Bank data, 2021.

Table 5: Intensity of R&D spending in the EU and Slovakia in 2010-2019 (as % of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU 28 (EU 27)	1,86	1,91	1,96	1,98	2,00	2,01	1,99	2,03	2,07	2,10
SR	0,61	0,66	0,80	0,82	0,88	1,16	0,79	0,89	0,84	0,83

Source: OECD, 2021. Available online: https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm.

"In all categories Slovakia is at the tale end of the EU and from among the V4 countries Czechia and Hungary are way ahead of Slovakia. In its intensity of R&D spending Slovakia doesn't score even 40 percent of the EU average."

And this phenomenon is long-term despite proclamations of improvement by every government for the last 15 years.

Although the Slovak economy is mainly dependent on the economic performance of foreign markets, the government must actively and effectively contribute to the development and in this "covid era" to the recovery of export companies. From a long-term perspective such aid is represented by an effective and specific pro-export policy and from a short-term perspective it is an active support to business foreign missions, support to the participation at important fairs in priority or special countries and the expansion of the portfolio of services that ensure exporters state financial and institutional support – Ministry of Economy of the Slovak Republic, SARIO-Slovak Investment and Trade Development Agency, Ministry of Foreign and European Affairs, EXIMBANKA, SOPK-Slovak Chamber of Commerce and Industry.

Change is possible only through the mobilization of R&D mainly through the building of R&D centers, the involvement of universities in commercial research, a practically oriented education system, state subsidies for innovation activities, as well as fiscal stimuli for research conducted by investors. Coordination of state institutions and a pro-export policy is a key to this process.

The following should be the anticipated result: a higher share held by the commercial services sector, the transformation of the automotive and electrical industries in order to maintain the industrial relevance of the Slovak Republic, along with a greater participation of Slovak companies in the value chains in such activities as R&D, design, digitization of production and processes, marketing, distribution and perhaps even foreign trade activities. It is important to emphasize that only by way of this kind of transformation built on innovation can macroeconomic benefits and living standards of states participating in global value chains.

A significant problem for Slovak export is posed by the low participation of SMEs. Level of costs, insufficient capital, know-how, personnel, language skills, as well as know-how and skills in the techniques of foreign trade sector result in the fact that 10 biggest exporters in Slovakia are mostly the result of the inflow of foreign capital.

As many as 7 of the 10 biggest exporters are exclusively in the hands of foreign investors and in the other three cases foreign investors hold majority shares of stocks. Another basic problem is the fact that the 10 biggest exporters account for 40 percent of overall export which poses risks of considerable volatility in case of a departure of an important investor or exporter for a country with a more favorable ratio of productivity and costs.

SMEs in Slovakia make up 97% of Slovak companies, responsible for 72% of employment in the private sector. Among these are exporters whose needs get trampled underfoot by data showing a seemingly growing tendency of our export. In reality, however, this data is deformed by transnational corporations, since they transfer most of the profit generated in the Slovak Republic abroad. Based on these facts, radical pro-export stimuli must be undertaken for the benefit of SMEs in Slovakia.

The support of SMEs seems to be one of the possible solutions to the optimization and monotony problems of Slovak export. Bringing about these changes should belong to Slovak priority interests as in regard to domestic and pro-export policy. Furthermore, SMEs suffer because of the lack of branding of the country abroad, which places a high demand on an effective and result-oriented economic diplomacy of the Slovak Republic.

A particularity of Slovak export is its inadequate performance in third country markets. Without a revolutionary change in economic diplomacy and its specific and measurable contribution to Slovak SMEs, we cannot expect a growth in exports to third countries and a compensation of deficits accrued in foreign trade with such countries as the People's Republic of China, the Russian Federation, South Korea, Vietnam and others.

A stagnating or slightly declining competitiveness of the Slovak Republic in key competitiveness indexes (the global competitiveness index, the IMD competitiveness index and the "Doing business" index) is the result of an inadequate reaction of specific governments to problems of the corporate sector in Slovakia. This was pointed out by prominent economists in Slovakia even before the crisis.

From the point of view of commodity structure of export, we cannot but acknowledge the long-term dominance of the automotive industry, which, with a 50% share of industrial production and a 13% share of national GDP, is the backbone of our national economy.

Such a strong dependence of our economy on just one segment of industry shows itself to be a risk for the economic development of the Slovak Republic and international competitiveness. This is especially true if domestic companies will not be able to implement key trends in the sector, labeled under the term *Industry 4.0* – automation, digitization, electromobility and other innovative elements.

What is also problematic is the territorial structure of Slovak export within which exports to the EU have been oscillating above the 80% mark for a long time. In 2020 the share of overall export from the Slovak Republic to EU countries was at the level of 78.4% and to OECD countries at 87.5%. This territorial monotony of our export is reflected in its sensitivity to economic, but also political changes on this limited territory and it also limits export related income.

A pro-export policy and its effective utilization in the growth potential of economies is possible only in the case of the supply possibilities of the domestic economy (goods for which there is a demand on international markets). This effect requires a high rate of innovativeness of domestic companies, which is possible only through the development of human capital. For a long time now, however, Slovakia has been losing its standing in high-school test scores and is falling to the bottom of the heap of developed countries and in some instances to the level of developing countries. Further still, industry 4.0 and COVID-19 have strengthened the trends of job transformation, without which the development of production capacities and a resulting assertive foreign export will not be possible.

A pro-export policy is peculiar when the Slovak economy is dominated by the automotive industry. Innovative elements are a key characteristic of the automotive industry (autonomous elements, electromobility, digitization) and this further enhances the need for a reform of the education system and for the support of innovative activities of Slovak companies.

Therefore, the production basis of the Slovak Republic will not be competitive without a fundamental change in the education system with the critical emphasis on quality. These changes must be conceptual and long-term and must go beyond a single political election cycle, as is the case with the debt brake, the energy network development plans and so on. Undervalued teachers, an outdated acquis and the absence of modern skills in the education system will deal a blow to Slovak competitiveness and subsequently to the added value of its exports and to the growth of living standards.

The paramount aim of decarbonisation poses a fundamental challenge to EU export. The Slovak pro-export policy is formed by its industrial character (third highest share of GDP in the EU) and by the fact that most of its highly energy-dependent industry remains in the hands of Slovak shareholders – metalworking, the paper industry, cement production, the chemical industry. The European Green Deal, the Fit for 55 packet and other "decarbonisation" projects of the European Commission place demands on the price competitiveness of Slovak exporters in these highly energy demanding sectors by driving upwards the price of energy, especially electricity. Without a conceptual policy of supporting energy demanding companies, the maintenance of current employment, profitability and revenues from the companies in this sector cannot be expected.

The following partial recommendations should be in place to create an effective institutional framework for supporting export:

- *active, efficient and specific government aid in support of foreign trade of the Slovak Republic and its export performance;*
- *massive financial subsidies to Slovak export, especially SMEs, with its own state budget;*
- *set priorities and appoint institutions in educating civil servants in foreign trade and the business environment in the Slovak Republic;*
- *set priorities and appoint institutions in educating SMEs in pro-export subsidies and techniques of foreign trade;*
- *define priority countries with justifications and goals;*
- *support to businesses at expos and fairs abroad, which is the most effective tool for expanding SMEs to new markets, maintaining them in current ones and for encouraging SMEs to participate in international trade;*
- *enhance and significantly improve the economic diplomacy network of the Slovak Republic, place experts in positions pertaining to foreign trade, direct foreign investment and the Slovak business environment.*

Systemic measures

Taking under consideration the economic dependence of the Slovak Republic upon export (approximately 90% of Slovak GDP) we deem as unavoidable that systemic support for export should be part and parcel of the upcoming recovery plan, as well as other strategic documents.

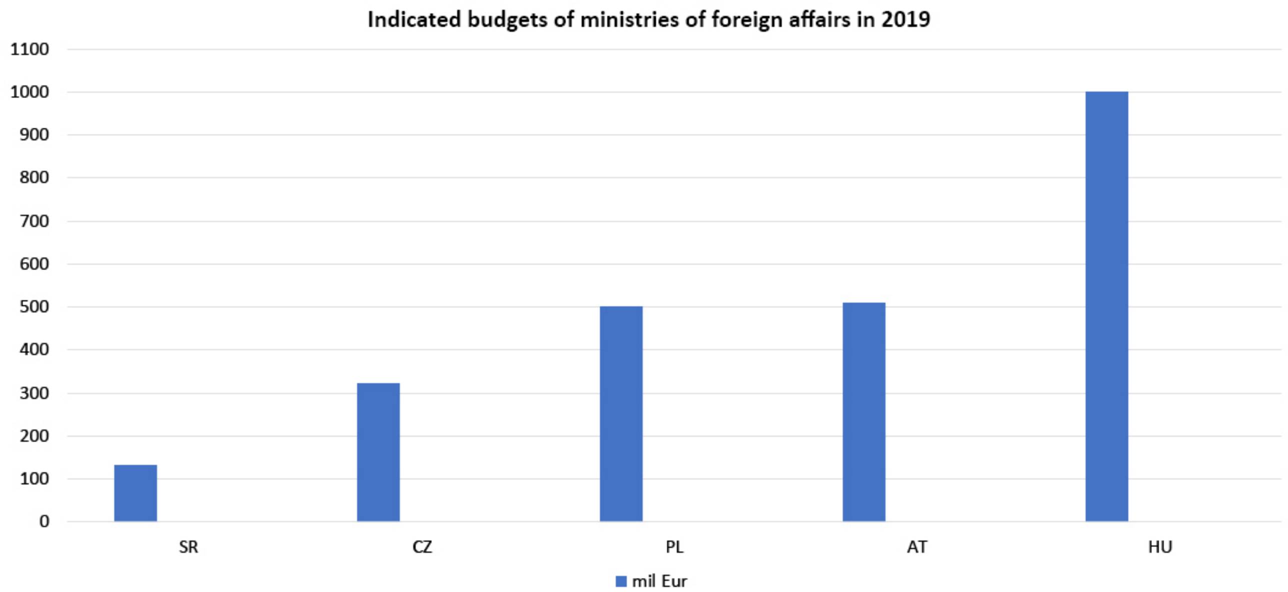
The supporting EU financial mechanisms offered are seen by Slovak exporters as an opportunity to enhance competitiveness on international markets.

The Council of Slovak Exporters Recommends the Following

1. Additional funding for export

Allocate further funds to improve the system of export support within the Slovak Foreign Service in such a way so as to effectively link policy with the economy in international relations. This area is currently dramatically underfinanced and does not command sufficient human capital either at the ministry nor at the embassies.

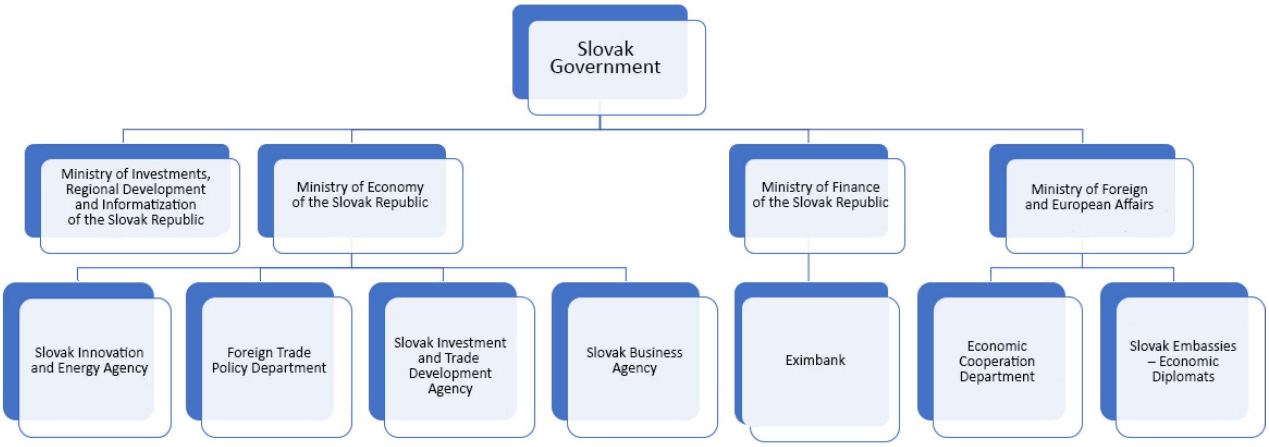
Graph 13: Budgets of Ministries of Foreign Affairs of neighboring states in Euros in 2019 (Budgets may slightly vary in real numbers. This information is only illustrative.)



(Budgets may slightly vary in real numbers. This information is only illustrative.)

2. An Export Coordination Center

In view of the jurisdictional fragmentation across ministries and state institutions in regards to supporting export, we recommend the establishment of a single governmental body at the Government Office of the Slovak Republic, which will coordinate all jurisdictionally relevant state institutions, coordinate and manage, both jurisdictionally and financially, the implementation of pro-export measures and tools with the aim of eliminating duplicities and



** The current state of purviews in the area of advancing export in Slovakia. Ministry of Investments, Regional Development and Informatization of the Slovak Republic needs to be taken into account, which until recently managed innovative diplomats abroad.*

3. Export database and branding

The identification and establishment of a unified database of Slovak exporters, which will be made available to all relevant institutions. The subsequent implementation of support mechanisms and measures as part of promoting Slovak products and services in the international arena with the aim of identifying them with the brand of Slovakia. All this is aimed at creating an international identity – so called global branding.

4. Digitization and communication

For the purposes of more effective communication, it is necessary to adopt measures towards the digitization of databases, information, processes and services, the function of which is to provide informational and procedural interaction between the state and the entrepreneur. In order to provide a more direct, timely and relevant interaction with the corporate sector, it is important to invest in technologies and human resources within the Civil Service and to actively and professionally utilize the most modern communication technologies and equipment.

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