EXPORT COMPETITIVENESS OF
SLOVAK COMPANIES ON FOREIGN
MARKETS

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Abstract

Overall agrarian trade of the Slovak Republic was greatly affected in 2004, when Slovakia joined the European Union, which meant adapting to the new challenges arising from the terms of the Common Agricultural Policy of the European Union. The European Union and its member countries concluded number of preferential agreements to eliminate trade barriers and to improve trading on domestic and foreign markets. The aim of the paper is to evaluate the development tendencies in the Slovak Republic’s inclusive trade while pointing to the achieved competitiveness towards selected countries of the world and in particular to V4 with a special aspect of agro-food commodities. Development of Slovak agrarian trade share is analyzed related to the total trade in Slovak Republic, European Union countries and third countries. To obtain relevant data on proven comparative advantages of the Slovak Republic in agricultural and food commodity group with third countries, index of comparative advantages RCA is used.

Keywords: competitiveness, export, export competitiveness, import, terms of trade

JEL Classification: F1

1 Introduction

The business standard of the competitive strategy of companies (regional theory also emphasizes the necessity of regional competition), enables them to compete effectively and thereby strengthen its position on the market. Porter (1994) is presented by many series of authors in their publications. Nowadays, the positions of the leading exporter are the most accepted in the area of strategy, namely Porter. Practical experience and current theoretical research confirm that in global
competition or competition of companies and regions in the globally developing world, it is impossible to maintain a position among competitors without changing the standard notion of a competitive strategy.

2 Theoretical and Methodological Approaches

Examples of trying to get a new look, responding to changing conditions in the global economy and non-economic competition are all in common. However, the best-known ones include for example, publications of Gibson and others - A New Image of the Future (Gibson et al., 1998).

In the book Change Management Guide - Trends in Management by Häuser et al. (2003) it is presented as an example of the "new path" of the growing spiral of competitiveness "arising from the internal functioning of an enterprise, developing as a success of successes in successive combinations of competitive factors such as innovation, speed, quality, cost and labour productivity.

Being competitive means higher or more reliable incomes, a better position in a ranking, which has been built from compared entities (Chajdák, Arbe, Novotná, 2011).

Competitiveness at the corporate level can be understood as an ability to produce and sell a particular product, subject to the preservation of profitability. A competitive enterprise must be able to reduce the resulting product price if necessary and offer a higher quality than its competitors. This argument can be relying on a production theory where the company should drive its business to maximize profit, puts pressure on its production capacity, which is conditional on the volume of sales while not missing an opportunity to make a profit within the market. It is the profit that accelerates competitive firms to market, and the loss is causing a loss of competitiveness and a market position at the same time as a result of the production theory, generating profit and expanding on the market. Only companies, which produce their products with a lower level of costs than the market product price, and at a lower cost than competitive are able to keep their position. Therefore, the cost level becomes one of the decisive determinants of the company's competitive ability (Marinič, 2008).

3 Development Tendencies in the Export Competitiveness of Slovak Enterprises

The economic results achieved over the past period have highlighted the need to improve competitiveness in order to achieve higher sustainable growth. A detailed analysis of Slovakia’s export competitiveness, taking into account a number of new criteria, suggests that Slovakia has been able to maintain the positive trend
of international competitiveness in the post-2008 challenging crisis period. An important role was played by price and non-price factors.

The interconnectedness of the competitiveness of economic growth and real convergence (convergence) is documented by a simple relationship between the balance of payments, current account balance, performance developments and price level in EU countries. Countries with high deficits in the pre-crisis period faced a more pronounced fall in both price level and performance (Table 1).

Table 1 **Overview of Slovak Foreign Trade Development in the years 2014-2016**

<table>
<thead>
<tr>
<th>Year</th>
<th>In mil. €</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import</td>
<td>Export</td>
<td>Saldo</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total trade</td>
<td>60 152,2</td>
<td>64 800,9</td>
<td>+4 648,7</td>
</tr>
<tr>
<td>Agricultural and food products</td>
<td>3 787,4</td>
<td>2 749,4</td>
<td>-1 038,0</td>
</tr>
<tr>
<td>Share in %</td>
<td>6,3</td>
<td>4,2</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total trade</td>
<td>64 562,3</td>
<td>67 865,2</td>
<td>+3 302,9</td>
</tr>
<tr>
<td>Agricultural and food products</td>
<td>3 830,9</td>
<td>2 734,8</td>
<td>-1 096,1</td>
</tr>
<tr>
<td>Share in %</td>
<td>5,9</td>
<td>4,0</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total trade</td>
<td>66 401,8</td>
<td>70 073,9</td>
<td>+3 672,1</td>
</tr>
<tr>
<td>Agricultural and food products</td>
<td>4 103,3</td>
<td>2 829,8</td>
<td>-1 273,5</td>
</tr>
<tr>
<td>Share in %</td>
<td>6,2</td>
<td>4,0</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Own processing, 2018.

The favourable values of the underlying external balance indicators (current account surplus and surplus of foreign trade in goods) recorded in the recent period indicate that Slovakia does not have problems with the location of its production abroad. However, a more objective assessment of export competitiveness and sustainability requires an analysis of more comprehensive indicators providing more accurate information.

The liberalization of the international business environment and the use of modern technologies give entrepreneurs new opportunities to establish themselves on foreign markets while at the same time increasing the global competitiveness of Slovak products on foreign markets and the sustainable development of the national economy and especially the entry of the Slovak Republic into the EU became a great business for Slovak business entities, an opportunity to develop international business activities.
The single internal market (free movement of goods, services, people and capital) means that businesses in EU Member States should not be restricted. Certain restrictions are exceptional and consist mainly of measures to protect the safety of consumer’s health, the environment, the qualifications required for pursuit of regulated professions and trades, such as doctors, accountants and architects.

In spite of the restrictions outlined, in 2004 Slovak businesses opened up markets with almost 500 million inhabitants with a stable business and legal environment and a well-functioning institutional background. The share of intra (intra) trade in the total intra (intra + extra) trade of the Slovak Republic in mil. EUR is the following for the years 2013 to 2016 (Table 2).

Table 2 Proportion of intra merchandising of Slovak Republic

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Extra + intra</td>
<td>Intra export</td>
</tr>
<tr>
<td>2013</td>
<td>64173,2</td>
<td>51113,8</td>
</tr>
<tr>
<td>2014</td>
<td>64721,1</td>
<td>54416,1</td>
</tr>
<tr>
<td>2015</td>
<td>67853,2</td>
<td>57826,0</td>
</tr>
<tr>
<td>2016</td>
<td>70073,9</td>
<td>59686,8</td>
</tr>
</tbody>
</table>

Source: Own processing, 2018.

Table 2 clearly shows the share of intra-EU exports to EU Member States in the referenced years is 85 %. It exports to the third countries only the remaining 15 %. The intra-EU share of EU countries reached 67.32 % in 2016.

On the foreign markets, companies can use different strategies for international business. When choosing a strategy for a target market, it is always necessary to take into account the specifics and maturity of the market and a whole host of other factors. This is mainly about trade and political conditions - customs and foreign exchange regime, exchange rate policy, non-tariff trade policy instruments (technical barriers, quantitative restrictions, minimum prices, anti-dumping duties, import surcharges, import deposits).

In practice, international trade and international business are implemented in various forms that can be broken down into:
- export and import of goods and services (business operations),
- unqualified forms of capital investment (licenses, franchise and management contract,
- capital intensive forms of entry into international markets (e. g. foreign direct investment).
In recent years, an important document for improving foreign policy has been the document "Strategy for Export Policy for 2007-2013", which directly follows in an extended form the next document "The Strategy of External Relations of the Slovak Republic for 2014-2020", which, based on the decision of the Government Council The SR serves to support export and investment of March 25, 2013.

The objective of the external economic relations strategy is to secure the position of the Slovak Republic in international economic relations, supporting the economic development of the countryside, raising the standard of living of the population and promoting economic interests abroad, including guaranteeing fulfilment of the requirements of economic security.

The main effects of the implementation of the present strategy are to strengthen the position of the Slovak Republic as a visible and respected partner for economic cooperation, strengthening foreign economic cooperation, integration partnership and building alliances in the economic area in the context of the new medium-term strategy of the Slovak foreign policy after 2015.

On the security level, the implementation of the strategy will aim at ensuring the economic security of the Slovak Republic in particular by ensuring stable deliveries of strategic goods, which are necessary for the economy's well-being in terms of the Slovak energy security strategy. On the economic level, the strategy will contribute to building such a character of the country's external economic relations, which will contribute to increasing the level of economic development, stability of economic development and the standard of living of the population. At the political level, the strategy will be to place the Slovak Republic as a dynamic entity of the world economy and an active member of the EU and international organizations.

In the context of the above from the point of view of EU trade policy and from the point of view of the priorities of the SR, it is necessary to mention the current development of the negotiations on free trade agreements. The first bilateral Free Trade Agreements of the new generation were concluded with South Korea and were ratified by the European Parliament on 1 July 2011. The implementation of this new policy is also illustrated by the EU-Peru and Colombia multilateral trade agreement, from 2013 onwards, the EU-Singapore Free Trade Agreement negotiated in 2014 and the EU-Vietnam Free Trade Agreement negotiated at the end of 2015 as well as the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada, which was the subject of the final procedural negotiations leading to its signature in October 2016.

While the negotiations with the United States on the Transatlantic Trade and Investment Partnership (TTIP) remain an open and well-known priority, the EU is also continuing negotiations on free trade agreements with Japan, Mercosur
and Tunisia. The European Commission, as negotiator of these agreements on behalf of the EU, is determined to step up negotiations with the Philippines, Indonesia, and with India, Australia and New Zealand in the next year.

During the negotiations about free trade agreements, besides the agricultural sector, regulated areas - especially social and environmental standards, the public services sector - and the protection of investments, sanitary and phytosanitary measures, the issue of geographical indications, and, last but not least, the overall transparency of the negotiations are sensitively perceived. In this context, it is necessary to mention the TTIP agreement, due to significant differences in EU and US regulatory regimes.

In the EU negotiations with third countries about free trade agreements, the Slovak Republic in the area of trade in agricultural and food products, on the one hand, seeks a balanced approach in the enforcement of our offensive and defensive interests. Traditional Slovak export items, for which the SR generally requires a reduction in import duties by third countries, include dairy products, isoglucose, food preparations, cereal preparations, chocolate and confectionery. On the other hand, by requiring the SR to import agricultural items, which are unable to be produced due to its geographical and climatic conditions, it has a positive approach to the liberalization of the market for imports of certain goods from third countries - especially tropical and subtropical fruit and vegetables, products of them, coffee, tea, etc.

In the negotiations with third partners, the SR also takes into account the indirect effects of liberalization - (e.g. beef, sheep meat, sugar, milk, cheese, etc.), although importing these items may not be transported directly to our market but rather to the markets of the original EU members, but it can threaten our past exports of live animals to the market of the original EU members.

4 Conclusion

Competitive and successful innovating enterprises are the necessary prerequisites for positive structural change and convergence of the Slovak economy. In the comparison with the countries of European Union, we can conclude that small and medium-sized enterprises are a very important part of the EU economy. The share of these enterprises on the job creation is more than 60% and the share on the added value is about 50%. The position of SMEs is significant in the Slovak economy, their share on the employment is more than 70%. On the other hand, Slovak small and medium-sized enterprises show half labour productivity in the comparison with the countries of EU, and their share of Slovakia’s exports is also low (26%). Generally, in Slovakia SMEs are relatively large (in the view of the share
of employment and value added), rapidly growing (in terms of the density of new businesses) and less competitive (in the view of labour productivity) sector of the economy. In the aspect of business mentality, the Slovak economy is only slightly worse than the EU average. The main motivations that lead people to entrepreneurship in the EU and Slovakia include two economic factors: the realization of an appropriate business idea and the acquisition of the necessary financial resources.

The most significant barrier to starting a business in Slovakia is the lack of financial resources. Slovakia is relatively competitive in terms of subjective factors in setting up new businesses. On the other hand, this country is evaluated worse in the comparison with the countries of the EU in terms of objective factors (regulatory measures for business start-ups and taxation). In addition the availability of financial resources for SMEs, the deficit in tax and regulatory support for SMEs, the position of SMEs within the framework of the overall economic policy, the scope and quality of direct government support for SMEs, social and cultural standards can be considered as weaknesses of the quality of SMEs' business environment.

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