SLOVENIAN CATCHING UP WITH THE DEVELOPED COUNTRIES: WHEN AND HOW?

8th Bi-Annual European Association for Comparative Economic Systems Conference
“EU Enlargement – What Comes After 2004?”
Belgrade (Serbia and Montenegro)
September 23rd-25th, 2004

Summary: The process of catching up in development depends on the accurate assessment of the current status of economic development, internal government efforts and external conditions. The article first analyses the possible world development scenarios. It concentrates on three scenarios of which in the short term the most probable is the growth leader scenario, the best scenario being the scenario of growth shift. The time lag is larger when Slovenia is compared to the successful small EU member states, rather than with the EU 15 average. The original time distance calculations show that, as regards the exports of goods per capita, we are lagging behind some small member state for up to 33 years, that figure being a little lower as regards exports of technologically intensive products. The optimistic scenario of catching up in 16 years does not seem very probable as it would not be easy that the Slovenian economy’s growth rate would be 2 percentage points higher than that of the EU 15 average. This time would be shorter if the necessary changes were made to the government policy towards promoting the knowledge-based economy (a precondition for productivity growth), and thus more effective responsiveness and flexibility, as well as internationalisation (also with the aim of restructuring and greater specialisation), innovative capabilities and, last but not least, overcoming the present mentality and coordination and implementation deficits.

Keywords: world development scenarios, Slovenia’s time lags (exports, productivity, GDP, technology, foreign investment…), catching up, small states, developmental role of the state.
Introduction

Globalisation, membership of the European Union (EU) and general trends of restructuring in the world economy all demand a substantial rethinking of the position of every state, especially a small one. The challenges are great. They cannot be met by great words but rather with everyday activities of every entity. The present article is intended to point to such concrete action of the small state Slovenia. It attempts to establish the current Slovenian position, and on that basis to outline the policy to be adopted to improve it within the world trends.

Assessments of the position of Slovenia vary between self-complacency and the opinion that the delays in restructuring have permanently pushed Slovenia in a secondary role. Only international comparisons can give us a realistic assessment between those two subjective or even politically inspired extremes.

New possibilities and opportunities are presenting themselves with the membership of Slovenia in the EU, but one can benefit from them only by adopting appropriate policies. This has to be emphasized with the objective of creating a sufficiently ambitious and development focused environment, thus avoiding the idealistically simplistic extrapolations of past trends that can derail and negatively stimulate the active efforts of promoting development and catching up with the more developed member states of the EU.

We wish first, by measuring the time distance, to establish how much Slovenia is behind the developed states statically and dynamically, and thus establish how, under which conditions and with which policies can Slovenia bridge that gap and converge with the development of the most developed EU member states. As Slovenia is a small state and therefore its development relies heavily on the development of international environment, we analyse (in the second part) possible scenarios of world development and (in the fourth part) explore what needs to be done to bridge the gap to the developed countries.\(^2\)

An integrated approach is needed because membership in the EU means a new configuration of national competitive advantages (new diamond, according to Porter, 1990) that encourage the formation of new clusters, as well as a new specialisation within the EU. Membership can accelerate the overcoming of one of the Slovenian economy’s most important problems, i.e. a low level of specialisation. This means also a new allocation of resources and a new flexibility within the EU as well as globally.

We base our considerations on three premises:

- a) Slovenia is a small country and its development is thus largely dependent on the development of the global economy and its main economic partners respectively;
- b) The success of Slovenia’s development is mostly dependent on the successful and fast responsiveness to external conditions: The development strategy must therefore enable the highest possible flexibility and fast responsiveness,\(^3\)

\(^2\) These are not predictions as they are always quite risky. The Economist even wrote (see 2003, August 23: 53) that it is appropriate to ask the elite group of economists what will happen, listen carefully, and then “bet on the exact opposite”, for they have regularly erred in the past.

\(^3\) More in Svetličič, 1993.
c) a small state can optimise its advantages by having an appropriate policy that it is also effectively implementing,\(^4\) which presumes the existence of a strategic national development consensus.

In short, despite a high rate of dependency on the world developments, the success of a small and open economy also depends largely on the success of national development strategies and policies respectively.

**The foreseen development of international environment**

What shall be the world development in the next twenty years? Shall it be driven by labour, capital/technology/knowledge or productivity? The main development tool in the last 25 years, especially in the developed states, has been technology and total factor productivity (TFP), which came about in the conditions of the strengthening of globalisation and oligopolisation of markets, growing mobility of production factors, and instability.\(^5\) The sources of competitiveness are changing, flexibility of labour is growing, and the development poles are gradually reallocating outside the OECD member states accordingly (Asia, transition economies). The trends of de-industrialisation and secular enhancing of the importance of services (the so-called “service-isation”) continue. We are witnessing a gradual formation of a new global architecture in which the role of international organisations and international law is growing. Liberalisation is facing protectionism as a way of maintaining the eroding advantages.

OECD has, already in 1999, predicted three scenarios of long-term growth of the global economy in the 21\(^{st}\) century:

1. *growth leader*
2. *growth shift*
3. *growth clusters*

This is not clairvoyance but rather setting possible development directions in the real world. These are not mutually exclusive and within each there may be some countries, or some industries, that follow other routes (Julius, 1999: 172). There are also a set of strategic documents at the EU level, e.g. the Lisbon declaration (2000) or Sapir and others (2003) who examined the EU in particular and were critical of such.

All three OECD scenarios imply an above-average growth of the world economy in the next quarter of a century. The *growth leader* scenario enables it through productivity growth of large companies and governments, based on the latest and large-scale technologies, as well as the information-communication- and biotechnology. They would all be propelled by an economic and competition policies stemming foremost from the USA. According to the *growth shift* scenario, productivity growth would mostly be a result of technology transfer in the direction of emerging economies where the percentage of skilled labour is growing fast. OECD member states would become an area of low growth rates and high income, a rent-based society where employment and consumption would increasingly be focused on services (sports, entertainment, education, health). The *growth clusters* scenario actually means a new

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\(^{4}\) Many good plans fail precisely because they are badly implemented.  
\(^{5}\) Kose in Prasad have calculated that the latter are, measured as a standard deviation of annual growth rates in the period 1960-2000, substantially larger in the case of small states as in the case of large ones; as regards GDP 5.8 compared to 2.5, and in terms of trade 5.6 compared to 1.5 (Kose and Prasad, 2002: 41).
global order, in which the role of national governments would diminish while a private-public partnership at the local level would grow in importance, and would become a key factor of competitiveness. The restructuring of the global distribution through the growth of e-commerce and seizing new opportunities that the latter offers to individuals and small enterprises, irrespective of their location, would propel productivity growth.

Table 1: GDP growth 2000-2005 – annual average growth and share in world production (in %)

<table>
<thead>
<tr>
<th>OECD member states</th>
<th>Growth leader</th>
<th>Growth shift</th>
<th>Growth clusters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share in world GDP 2000</td>
<td>Share in world GDP 2025</td>
<td>Share in world GDP 2025</td>
<td>Share in world GDP 2025</td>
</tr>
<tr>
<td>60</td>
<td>3.0</td>
<td>51</td>
<td>1.0</td>
</tr>
<tr>
<td>Non-OECD</td>
<td>40</td>
<td>4.5</td>
<td>49</td>
</tr>
<tr>
<td>World</td>
<td>100</td>
<td>3.7</td>
<td>100</td>
</tr>
</tbody>
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Source: based on DeAnne Julius, 1999, p. 186.

OECD member states would reach the highest growth rate according to the growth leader scenario. This presumes the TFP growth of around 2.5% annually, which is above historic trends. The developed states would continue with their growth rates also in case of the growth clusters scenario, whereas they would perform worse in case of the growth shift scenario. Under all three scenarios, the rest of the world would grow faster than in the last two decades. For the developing countries (DCs), the growth shift scenario is obviously the best one. It would also mean the biggest change in the reallocation of GDP until 2025.

All three scenarios are based on technology-led growth. The first one is dependent on leading edge developments in new technologies and new applications of existing technologies and related organisational structures at production plants outside OECD member states and transfers of best practices. The innovative utilisation and application of information-communication technologies on lower levels shall be crucial. Small enterprises and highly skilled individuals with access to information and global consumers only available to multinationals in the past (Julius, 1999: 171), would form the bulk of its users.

Despite the US economic recession at the start of this century, the macroeconomic basis of the US economy supports the probability of the growth leader scenario, which would mean that the rest of the world would increasingly converge with the US development model. This is what Sapir (2003) means when he discusses the urgent need to increase the EU’s labour market flexibility and competition, since the current combination of low growth and higher public expenditure is not sustainable, and will become less so in future. Considering a more social development model in Europe, and also in Japan and the DCs, this will cause numerous political strives. On the multilateral level, this scenario would mean more pressure towards a

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6 This is based on the fact that the US economy has been the source of as much as 3/5 of world growth since 1995.

7 In the conditions of growing unemployment, the demand for social benefits grew; the share of governments expenditure in the GDP has risen from 36% in 1970 to 49% in 1985 (Sapir e.a., 2003: 3 in 94).
bilateral way of solving problems (which is already the case) and personal diplomacy, not through formal or institutional structures. The scenario is also dependent on the political change in the USA (Julius, 1999: 175 and 176).

The growth shift scenario of the world economy moving gravitation centres from the OECD member states to the emerging economies is based mainly on the rapid growth of Asian, Latin-American and perhaps Russian economies, and the development in other parts of the world at the same time. This would influence a change in location of production sectors to the emerging economies (Julius, 1999: 177). By basic economic stability, high influx of foreign direct investment (FDI), the developing Asia can enter the 21st century as a locomotive of economic growth (Julius, 1999: 178 and 179). This is already the case because the share of imports of manufacturing goods from the DCs (mostly from Asia) into the EU has risen from 10% in 1970 to 36% in 2000 (Sapir et al., 2003: 97). It can be done only through further liberalisation of the movement of goods (also textiles and agricultural products) and capital from the OECD member states to the emerging economies, as well as the regulation of FDI within the WTO, for the latter represent the fastest way to TFP growth and to enter OECD markets (Julius, 1999: 180).

The growth clusters scenario predicts a long-term economic growth, propelled by networks of interconnected regional growth centres. The economic growth centres are no longer states but infrastructurally (informatically) excellently supported cities or regions (e.g. the Silicon valley, Singapore, Bangalore etc.). The communications revolution is through Internet the basic source of productivity growth, much as the industrial revolution was in the 19th century (Julius, 1999: 181). The driving forces of growth clusters are the agglomeration economies and networks competition. A group of enterprises whose standards prevail gains important advantages. Agglomeration economies take advantage of other enterprises’ or main consumers’ proximity in a way that enables them to have higher productivity by cooperating than by being isolated (Julius, 1999: 171). This is especially important in knowledge intensive industries, like the software industry, financial services or medicine. The advantages of public services based on the economies of scale or external information economies (healthcare, university-level education) decrease because of the impact of communication innovations (Julius, 1999: 172). The winners of this scenario will be the states that already posses a highly skilled workforce that speaks English, and cities with established communications infrastructure. The social risk of this scenario is a possible increase in regional differences (Julius, 1999: 181-183).

These scenarios are realistic only if the importance of policies and their actors respectively increases. Policies play a vital role in the growth shift scenario, while the growth clusters scenario requires less policy changes. It does, however, require effective public-private mechanisms, which are currently still in their developmental infancy. Policy, as expected, plays the least important role in the growth leader scenario (the American model). For the competitive struggle, this means a strong pressure on political change in Europe, Japan and outside the OECD area.

The basic players in the growth leader scenario are national governments, which have to change their labour laws and the welfare state policies (in the OECD member states), as well as restructure the control over corporations’ activities and foreign investment legislation. The growth shift scenario focuses basically on WTO and IMF policies, which should promote and facilitate the movement of goods and capital that drive world growth. The international FDI regulation within the WTO is a part of this framework. The leading role in the growth clusters
scenario is reserved for the private sector locally and regionally, as well as internationally, which encourages growth and sets the principles of e-commerce proliferation’s self-regulation. Sapir and colleagues (2003) are referring to the necessity of developing new relations between the EU institutions, member states’ governments, and about self-regulation of players and public-private partnerships respectively.

There are three priority policies on the international level that are common to all three OECD scenarios:

- a) trade liberalisation;
- b) intellectual property protection, all three scenarios being based on vast technology transfers between the OECD member states and the emerging economies;
- c) more FDI as well as transfer and application of modern technology.

Similar messages come from Sapir and colleagues (2003), who recommend essential changes to the EU. The feasibility of the current model, which is under pressure from demographic and technological changes, and globalisation, all of which is increasing the demand for social benefits, is questionable. In the future, when lower growth rates are expected, a different balance between growth and stability shall be needed. Growth must henceforth be the main goal of the EU. This demands comprehensive institutional and organisational reforms. More flexibility of the labour market is necessary, more external sources of financing (especially capital contributions), more investment into R&D and higher education. In particular, microeconomic reforms are necessary to accelerate growth, not so much macroeconomic ones, which demand a different allocation of budgetary funds and a budgetary reform. Three funds are being proposed: growth fund, convergence fund and restructuring fund. Giving the utmost priority to growth implies that more expenditure needs to be channelled to growth-enhancing activities such as R&D\(^8\) and education. With a constant budget, this means reducing the share allocated to agriculture and the modernisation of the system of government. The current system has become obsolete (Sapir et al., 2003: 1, 4, 115, 123, 125 and 126).

Two issues are essential from the perspective of Slovenia’s development, i.e. how can these scenarios be implemented (given the past trends), and on this basis, how to attempt aligning with the most probable one. At issue here is not choosing one of the scenarios but rather attempting to discern elements that will probably prevail in a given period. Next, one needs to establish strategic and political implications, i.e. what policy to adopt to maximise their positive and minimise their negative effects. Finally, social preconditions of feasibility of scenarios and policies that stem from them have to be established.

Another issue is which of these scenarios presents the best opportunities for Slovenia. It is certainly the growth shift scenario that enables an essential restructuring of the world economy, which gives the “late-comers” most opportunities to catch up with the developed states by redirecting to more complex production. Unfortunately, this scenario is the least probable in the mid-term because the developed world is putting on a ferocious protectionist defence against such a global restructuring of the world economy. In the short- and mid-term, the most probable is the growth leader scenario, the lead of the US being too strong while the EU is not showing promising development rates in the next mid-term period. The growth clusters scenario has higher potential of realisation, but can be successfully implemented only if we improve substantially the cooperation with the mentioned regional centres in the US and

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8 Increasing current R&D investment from 1.9 % to 3 % by strengthening in particular private investment Sapir et.al., 2003: 132).
Asia, and enable partners from there to penetrate indirectly into the EU by appropriate processing-to-order in our industrial (free) zones by providing favourable investment conditions in Slovenia (port of Koper), e.g. Slovenia as a springboard to their penetration of the EU market.

Although the external conditions are vitally important, our success depends mainly on our strategy and policies and their successful implementation, and even before that on our correct assessment of the current situation.

The distance of Slovenia to the developed countries

In this section we shall, beside the traditional static comparison of differences, use the original method of a special category of time distance, introduced into theory by P. Sicherl. Generally, time distance is an interval in time between two events, while the S-distance as a special category of time distance measures the difference in time when the two units compared reach the same level of the analysed indicator. The conceptual innovation with this new generic difference measurement is in posing the question, why should one measure the differences between time series only vertically, when there is a new and complementary measurement of differences that measures the difference between them for a given level of an indicator horizontally, which is expressed in time units. Expressed in time, it is comprehensible to anyone, from ministers, businessmen and media to the general public, and is therefore a very suitable presentation tool.9

Let us examine the time lag of Slovenia behind the EU 15 average for GDP per capita at purchasing power parity in two dimensions. In 2001, Slovenia reached 72% of EU 15 average.10 As regards GDP per capita at the purchasing power parity, Slovenia is approximately 16 years behind the EU 15 average, which means that the current Slovenia’s level was reached by EU 15 already in 1985. However, this assessment does not mean that such a time distance shall continue in the future. It could decrease or increase, dependent on our performance. Ireland, for example, has narrowed down this distance in a very short period of time from a similar starting point in the past and has even surpassed the EU 15 average. Judging from current results, Slovenia is however no Ireland.

Table 2 shows that, in general, Slovenia’s position is better when considering less difficult areas than when considering more difficult ones, and that we need a qualitative breakthrough as well as an expansion of innovative thinking from the current rather narrow circle. We are on the same level with the EU 15 average as regards mobile phones’ subscribers, and very close in cars per capita. The Slovenians are generally satisfied with their way of life. The international opinion poll on households, work and flexibility showed that the answers on the satisfaction with the economic situation of the household were in the same order as was the

9 See Sicherl (2003a). As all generic ideas, the concept of time distance so defined has a wide area of other possible application (see e.g. Sicherl 1994a, 1997). The Nobel prize winner for economics C. Granger finds the concept a useful addition to the present state-of-the-art: »As Sicherl (1973, 1993) proposes [...] one should complement conventional vertical measures with horizontal measures. [...] Sicherl's several works have presented a non-technical discussion of the theory of time-distance. This concept can help us to think more clearly about the forecastability of series« (Granger, Jeon 1997). They used the idea of time distance as a criterion for evaluating forecasting models (Granger, Jeon 2003). This opinion at the highest level of the expertise and the expansion of the application into another new area can be seen as a significant step in seeing the importance and usefulness of the time distance concept.

10 After revising the data for Slovenia, Eurostat has increased the percentage from previous 69% to 72% of EU 15 average. With it the assessment of ex post S-distance has decreased from 18 to 16 years.
case with GDP per capita: the Netherlands is followed by Sweden and Great Britain (which are on roughly the same level), and then with statistically significantly lower values by Slovenia, the Czech Republic and Hungary. As regards satisfaction with the way of life, the Netherlands and Sweden, with higher levels of satisfaction, are followed by a group of three countries on roughly the same level, i.e. Great Britain, Slovenia and the Czech Republic (Sicherl, 2003a: 91-94).

Unfortunately though, the attention that Slovenia paid to factors of long-term developments and welfare factors has been different. It has been concentrating a lot in the past ten years on unsatisfactory regulated privatisation and denationalisation (relocation), instead of concentrating on the much needed restructuring and raising the effectiveness of the Slovenian economy. A lack of vision has led to a situation in which Slovenia still has a traditional, non-specialised, all-including and from the Yugoslav times inherited industrial structure with low average productivity. The share of employment in the services sector, which is a mirror image of a non-restructured low productive industry, is behind the EU 15 average by more than 20 years. Roughly the same is true for the average level of productivity of the Slovenian economy, which is currently on the level of EU 15 in the first half of the eighties. Together with the Slovenia’s low educational level, this represents a serious delay in conditions of EU accession.

With respect to productivity, structural characteristics and life expectancy, Slovenia was in 2001 lagging behind the EU 15 by 10 to 20 years. Graphs 1 and 2 show in more detail the large time gap between Slovenia and EU member states as regards productivity, as well as exports of goods per capita compared to the successful small countries, both are important indicators of an economy’s competitiveness. Except Portugal, all EU 15 member states have higher productivity levels than Slovenia. As much as 13 from the 15 member states have an advantage of 10 to 30 years in the values of GDP per capita. Narrowing down these differences shall be one of the key elements for the catching up with the developed countries, and shall obviously require radical changes in perceptions and behaviour on numerous levels in Slovenia.

Table 2: The time lag of Slovenia behind the EU average or individual countries by chosen indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>S-distance (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment share in the services sector</td>
<td>21</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>16</td>
</tr>
<tr>
<td>Productivity (GDP per employed)</td>
<td>18</td>
</tr>
<tr>
<td>Life expectancy (female)</td>
<td>12</td>
</tr>
<tr>
<td>Exports per capita behind the successful EU member states</td>
<td>10-30</td>
</tr>
<tr>
<td>Share of population with tertiary education</td>
<td>10</td>
</tr>
<tr>
<td>Cars per capita</td>
<td>3</td>
</tr>
<tr>
<td>Mobile phones’ subscribers per capita</td>
<td>equal</td>
</tr>
<tr>
<td>Total exports per capita</td>
<td>4</td>
</tr>
<tr>
<td>Exports per capita behind the small EU member states</td>
<td>17-33</td>
</tr>
<tr>
<td>Exports of technologically intensive products per capita</td>
<td>10-24</td>
</tr>
</tbody>
</table>

Source: Sicherl, 2003b and new calculations

11 Denmark, Sweden, 17 years, the Netherlands 25 years and Belgium 33 years.
12 We are ten years behind Sweden, Finland, Denmark and Austria, 14 years behind the Netherlands, 16 years behind Germany, and 24 years behind Belgium and Luxembourg.
The picture is somewhat different as regards the time distance for the goods exports per capita, Slovenia being only 4 years behind the EU 15 average. However, this is not a relevant comparison. What is relevant is that Slovenia is significantly behind smaller European states in exports per capita. We can observe that the current level of exports per capita in Slovenia has been reached by Belgium 33 years ago, by the Netherlands 25 years ago and in Denmark and Sweden 17 years ago. This is an especially alarming difference, even more so if complemented by the exports structure as regards the technological intensiveness. Taking the latter into account, the difference is even wider and it is not decreasing but increasing, which is particularly worrying.

In 1995, Slovenia had 4-times less exports of highly and medium technologically intensive products\textsuperscript{13} per capita than Ireland, 3.7-times less than Belgium and Luxembourg, 2.1-times less than Denmark, 1.9-times less than Austria and 1.8-times less than Finland. It is true however, that it surpassed Greece by 16-times and Portugal by 2.6-times. The difference rose in all the mentioned countries in 2002, except for Denmark.\textsuperscript{14} We have calculated the relevant time distances using these data (see Table 2). The comparison with the FDI levels in the GDP of countries with a high level of exports of technologically intensive products per capita

\textsuperscript{13} See the definition of T. Hatzichronoglu, 1997, p. 6.
\textsuperscript{14} Calculated by A. Burger using data from Eurostat and the Statistical Yearbook of Slovenia.
GDP per employed (ppp): time distance for selected countries from EU15 average for 2001

Graph 1

Time distance between Slovenia and selected countries for exports of goods per capita 2001

Graph 2
demonstrates that these are bigger in the case of countries that have high shares of FDI in GDP. The theory and empirical studies, on the other hand, indicate that FDI can contribute to an increase in value added of exports, although they can at the same time have an impact on higher imports of products needed for these purposes. Nevertheless, they can have positive role in restructuring. The data thus lead us to the conclusion that a higher influx of FDI can accelerate the restructuring of the Slovenian exports in the direction of higher value added. This can be achieved also by one’s own efforts, although judging from the global experience this would be much slower.

The assessment of Slovenia’s position should not focus only on the EU, because it is not necessarily our only benchmark. The Lisbon strategy’s goal is that the EU would become the most dynamic, knowledge-based area in the world in the next ten years, an area which would be capable for a sustainable economic growth with more and better employment as well as greater social cohesion. Let us examine the situation at the beginning of the decade. In GDP per capita by purchasing power, the EU 15 average is as much behind the USA as Slovenia is behind this average. Of course, we do not wish to copy the USA in all areas, but it would be nevertheless important to introduce into our and European economy more inventiveness and faster implementation of new technologies, irrespective of the source of invention, as well as more labour market flexibility, and last but not least strengthen competitiveness in all areas. However, even a comparison with the US is not the end of the story, because e.g. in introducing broadband links, South Korea is significantly faster than the US.

It is, however, important for our present discussion to consider where the difference between the EU and the US is the widest: from the time distance perspective, the biggest difference is in the R&D area, a significant difference being also in average years of education. Interestingly, a similar picture can be observed from the difference between the current EU-4 cohesion states and the EU average (Sicherl, 2003a).

The EU’s answer to these and similar assessments on the importance of R&D was setting an objective of raising the share of this field in GDP to 3%. Whether this shall be accomplished or not is another story. But unlike our government, the EU is brave enough to set itself a clear vision and qualitative objectives with deadlines, and to monitor transparently the achieved with a system of indicators.

Let us examine further. It is our assessment that Slovenia is not well prepared for a knowledge-based society. It is not only the lagging behind in relation to the relevant indicators, but especially the mentality that it may be possible to thrive in the new globalized conditions by using old recipes. Lundvall (2000) is of the opinion that the learning society shall need a different exchange and use of information, as well as reintegration of the companies’ strategies, social partners and policies in different fields. The intellectual capital production is essentially dependent on the social capital, i.e. the capacity of a society to cooperate without major unrest. In a society with little mutual trust, one can learn little and the information cannot effectively be applied (ibid.). This knowledge and these capabilities are, however, not incorporated only into an individual, but also in organisations and regions (Arrow, 1994).

Ireland attributes its success in the last decade to the achieved social consensus and not to additional EU funds, although these have undoubtedly contributed additional advantages (see e.g. Nicholls, 2000; Cogan, 2001; McCarthy, 2002). The breakthrough from the crisis in the Netherlands has been achieved when it reached the social consensus, while this
simultaneously enables it a more flexible adaptation to the world changes than that of Germany (CPB, 1997).

When and how shall Slovenia catch up with the developed countries is evidently linked to the international environment, but depends primarily on our own effectiveness. First, we can look at a few simple calculations for the GDP per capita indicator at purchasing power parities. First one could calculate how much time we need to reach the EU 15 average of this indicator under certain assumptions about the growth rates of this indicator in the future. What is difficult is linking the assumptions of growth rates for the compared units with the conditions for achieving such growth rates. It is also worth stressing that the quantification of the scenarios in this article are not based on the long-term development models. The hypotheses on the possible development directions are used only for illustration, because they are dependent both on the international environment as well as on our own decisions and the effectiveness with which we shall implement these decisions.

Before discussing that, let us examine the time distance for the GDP per capita indicator. This can be done in two ways. Some in Slovenia have proposed a thesis that Slovenia should reach the EU 15 average in ten years. As the above formula indicates, the only data that we can extract from the statistics is the index between the EU 15’s and Slovenia’s indicator value in the starting period. This index is, according to the latest data, 1.39 for the year 2001; to assess the time needed to reach the same level, it is necessary to define also the difference between the indicator’s growth rate for Slovenia and for the EU 15 average.

If the difference between the GDP per capita indicator’s growth rate of Slovenia and the EU 15 average would amount to two percent, the time needed for total levelling would be around 16 years, and for the difference of 3 percent, it would be 11 years, and for the difference of 4 percent, the time needed would be approximately eight years. In other words, if we wanted to achieve total levelling in ten years, the difference in growth rates would have to be around 3.3 percent above the EU 15 average. A more difficult question of course arises, and that is at which absolute growth rate values such a difference, which is needed to achieve the given hypothesis, is realistically to occur. If one presumes a 3 percent growth rate for the EU 15 average (which seems optimistic given past trends), an objective has been expressed that Slovenia should have a 6.4 growth rate until levelling, which seems very hard to achieve.

Some other views are expressing the opinion that Slovenia shall feature among the most developed countries in Europe. Nothing is impossible, however the old question remains, and that is when and how. Let us examine the starting point. In the last years, the first five of the EU 15 as regards GDP per capita (by purchasing power) have been Luxembourg, Ireland, France, Austria, and Portugal.

The formula for the time needed to achieve a complete equalisation with this average is generally known (see e.g. Sicherl 1973, p. 565):

\[ t_e = \ln \frac{a(0)}{(r_2 - r_1)} \]

where \( a(0) \) is a ratio for the EU 15 average (Slovenia=1) in the starting period, while \( r_2 \) and \( r_1 \) are average Slovenia's and the EU 15's growth rates in the future. The time needed to achieve total equalisation is not the S-distance. It represents only a result of a simple algebraic manipulation of when the values for the two units shall equalise in the presumed conditions.

One can observe the essential difference between the S-distance and time needed to achieve total equality. The former is depended also on the absolute value of the average growth rates while the latter is dependent only on the difference between them and does not take into account the absolute value of an indicator's growth, which is of course extremely important for the development and welfare. In other words, a higher effectiveness that leads to higher growth rates with given resources means a higher welfare level and smaller time distance between the compared units, a fact unjustifiably neglected by the conventional analysis, based only on static criteria (Sicherl 2003a).
Denmark, the Netherlands and Austria. Let us take Austria as a benchmark, which is interesting also as our neighbour, the differences to the other mentioned countries being even bigger. In the last few years, the index of this indicator has been around 50% higher in Austria. In the last nine years, the average growth rate in Slovenia has been around 1.8 percentage points higher than the GDP growth rate in constant prices in the EU 15 or Austria. This means that to overtake Austria we would need, at this difference in the respective growth rates, at least 20 years. Even if the difference between our growth rate and that of Austria were 4% (e.g. 6% and 2%), we would need 10 years to level. Such scenarios mean three to five years of full government mandates, so there is no great likelihood for this to occur fast, or even less for it to occur under some presumed automatic convergence tendency. Let us add, as a necessary piece of realism, that in the last decade the growth rate of GDP in constant prices in Slovenia has never reached 6%, and that growth rate in Ireland in this period has been on average as much as 4.6% higher as the Slovenian one. The main basis for such an extraordinary Irish success, it has been stated, has been the decisive social consensus and a large influx of FDI, not EU funds. In other words, a relatively low value of additional EU budget funds shall not be able to substantially impact on our possibility of accelerating the catching up of the developed EU member states. If we wanted to not only sustain the tempo of catching up but also increase it, this would depend mainly on the qualitative factors. Such a case, however, requires substantial changes in mentality and behaviour, and depends also on the answer to the question whether Slovenia really is, and not only on paper, ready to set itself the right priorities.

The Slovenian citizens are, however, certainly not interested just in catching up and overtaking other countries per se, but mainly what these various scenarios mean for the increase in welfare. To assess that, it is not only the difference in growth rates between the developed countries and Slovenia that is important, but also the absolute growth rate value for Slovenia. The key factor in this respect is our own effectiveness, given the international circumstances. Because it is not realistic to expect large influx of foreign funds into Slovenia (FDI, EU funds, portfolio investment), the two main dynamic development factors thus remain knowledge and an optimal combination of given factors, which can be called entrepreneurship in the widest possible sense, including both state and society as a whole and individuals. Various international comparisons indicate that our biggest problems lie in the first category.

17 The share of FDI stock in Ireland in 2002 is 6 times higher than in Slovenia. It should be noted that in 2002 has been an extremely good year for Slovenia in this respect; FDI have increased a lot because of the takeover of Lek by Novartis. Such a large influx of FDI is not to be expected in the near future. But it is also true that this share is much higher in Ireland than in other small European states. FDI stock in GDP in 2002 by states is the following: Slovenia 23%, EU average 31%, Ireland 129%, Belgium and Luxembourg 82%, Denmark 41%, Portugal 36%, Spain 33% and Finland 27% (calculated by A. Burger using UNCTAD's database).

18 Current annual report of the World Economic Forum showed that Slovenia fell by five places in the table of global and business competitiveness, as compared to last year's results (WEF 2003). If these trends were to continue, it would mean a prolongation of the catching up period. The difference in growth rates between Slovenia and more developed EU member states would, unfortunately for us, decrease rather than expand to our benefit.

19 In the short- and medium-term the influx of FDI can be expected to be above average as compared to «normal» periods of low influx (before the takeovers of Lek and NLB) because of the EU membership, which shall encourage the takeover of Slovenian companies by European enterprises. This shall largely depend on the degree of privatisation of the non-privatised companies in the services sector and public services. Otherwise this influx shall be a function of more beneficial conditions, because a small market as a limiting factor cannot be influenced.
Let us consider as an optimistic scenario that the growth rate of GDP at constant prices of 5.7%, which has been included in the macroeconomic scenario for 2006 by The Strategy of Economic development of Slovenia, shall continue in the subsequent period. This can be understood also as to take place under an optimistic scenario for the international environment. Let us examine how this would influence the comparison of GDP per capita levels, reached by the EU 15 in 2001; at this level, the time distance of Slovenia behind the EU 15 average would be 6 years. Thus Slovenia would substantially narrow the gap to the EU 15 as compared by the time dimension, irrespectively of how the EU 15 would develop and what the static difference would be. This aspect of catching up depends only on our performance (with a favourable international environment).

Another hypothesis could be the one proposed by the Vienna Institute WIIW, which estimates a growth rate of 4% in the scenarios for the accession states. In this case, the time distance of Slovenia as regards GDP per capita for EU 15 in 2001 would be around 8 years in 2009, still a considerable decrease from the time distance of 16 years at Slovenia’s level in 2001. Even at the pessimistic figure of 2.5%, this time distance would decrease to 13 years. All these hypotheses on the growth rates in reality all contain another presumption, i.e. that Slovenia shall in the future develop faster than the EU 15 average has in the past, and so that the catching up shall continue and the standard shall rise. Judging from the current forecasts of GDP growth rates in the EU 15 (average 1.2%, only Greece and Ireland above 3%), this is by far not assured automatically, but shall demand serious efforts, to achieve the highest presumed growth even radical and successful changes in numerous areas.

**What should be done?**

“An increase in the degree of openess tends to reduce the size of countries (meaning that with the liberalization of international trade it is access to world markets not the size of national market which matters, op. SM) but also to increase the size of their public sector. Such a result is consistent with the empirical evidence of Rodrik (1998), who finds a clear correlation between openness and size of the public sector. Rodrik offers an explanation based on the greater need of open countries for a stabilizing role of the public sector. My explanation however, supports the empirical results of Alesina and Wacziarg (1998) who show that the crucial channel which drives the above mentioned correlation is the fact that more open countries are smaller and more homogeneous countries and hence they are more likely to agree on higher public goods provision” (Etro, 2003: 2). Role of the governments is changing; from being mainly a corrector of market failures to increasingly becoming a strategic planner and social shock absorber, particularly in small states that are more exposed to global changes.

The essential political dilemma is how to resolve conflicts between the necessity for openness, control and its (social) costs (vulnerability). Finding the right balance shall be one of the keys of the policies that can successfully encourage development. In other words, how to release the potential of the winners and what is the best way to help the losers (Schwartz et al., 1999: 109 and 110). The most promising is the path of promoting openness and creativity, entrepreneurial creativity, high degrees of international cooperation and the diffusion of know-how and technologies that promote economic convergence. Only a dense global network that at the same time promotes competitiveness and common actions of the business world, governments and individuals, can achieve all this. There is an additional dilemma for Slovenia, and that is how or to what extent implement all that in the new situation, i.e. in the
EU institutions, and how to do it within other international organisations, as well as what shall be the effectiveness of, narrowly speaking, the domestic economic policy.

In the long-term, it shall be increasingly necessary to encourage economic development in the manner that is consistent with the values and wishes of the population (Michalski et al., 1999: 32). This is the third challenge. One of the main reasons of a special economic and social policy is stopping negative trends, deepening inequalities and exclusion (Ibid: 31). These are of course only very long-term objectives, importance of which shall be very modest in the first decade when we shall witness an increased approximation to the American labour market flexibility and models in general in Europe. Other scenarios can gain in importance only later, but it all depends also on social pressure that stems from the consequences of globalisation within states and between them. It seems that the developed countries too have realised that adjustments are needed, that market mechanisms are not a sufficient guarantee for the maximisation of welfare for all, and that convergence does not occur automatically.

However, appropriate policies are not enough. What is needed also are institutions that can successfully implement them. The ability of a small state to change its old hierarchical structure of government simultaneously with the advance of information-telecommunication revolution may be crucial for its success, because in this manner it can be capable of catching dynamic opportunities in the field of cooperation between private and public sector in the 21st century into its sails. It all depends on the result of the clash between a bottom-up driven globalisation as seen by transnational corporations (TNCs), and its top-down multilateral regulation. The more the scale tips to the side of multilateralism or at least regionalism, the more the effects of globalisation shall be more evenly allocated.

Generally, a new development and mentality paradigm is needed.20 This is true both because of the new external environment (globalisation) and change in competitiveness factors (knowledge and information is key), and because of our new position or a “return” to a position of being a part of a new and immense “national” EU market.

In the framework of these general directives, Slovenia can shorten the catching up time to the developed part of the EU under the following specific conditions:

- if the economy accelerates specialisation and thus its restructuring in accordance with the new allocation of resources within the EU as a new “national” market (see also Damijan and Polanec, 2003), thereby accelerating growth.

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20 Unfortunately, it is impossible to measure the time distance in mentality, although it seems that in this area it is the largest. The danger of provincialism seems greater than that of cosmopolitanism, i.e. opening to the world. B. Žečk illustrated it appropriately by stating that “the danger of isolation is more realistic than total openness, which is also dangerous, and we shall have to think about how to face it, but at the moment we are at the other extreme” (2003, p. 40). The danger of the “balkanisation” of our conduct within the EU (searching for loopholes in the system) is also real and very dangerous, because it can preserve a development time lag in the long-term, as can been observed in the case of some states that are lagging behind in implementing EU rules. The reality of this danger can be observed in the slowing down of the privatisation rhythm (banks, insurance companies, telecommunications…) as if Slovenians were starting to take EU membership for granted. The policy of evading the EU rules by way of the “old boys networks” is also, despite its short-term benefits, dangerous in the long-term because it conserves the status quo, erodes the basis of the rule of law and undermines the necessary reforms, which is often more detrimental than the declared positive “patriotic” effects of it. The danger of “servitude” increases with the decrease in knowledge and awareness. The biggest declared patriot can cause more damage because of ignorance than, at first site a much smaller patriot, more cosmopolitan, knowledge-equipped realist (see also Svetličič, 2003).
of intermediate products – these are financially and globalisationally less intensive\textsuperscript{21} but at the same time enable small entities to integrate into networks of integrated world production\textsuperscript{22} –, which are gaining in importance, is not inferior, but it may even be a more promising strategy for smaller companies. It ensures fast responsiveness and a high degree of adapting to the EU, and the global economy conditions in general. To achieve this, the society’s (administrative\textsuperscript{23}) capacity in government and in companies has to be strengthened (Abramovitz, 1986), and the coordination deficit\textsuperscript{24} and the implementation deficit\textsuperscript{25} has to be overcome. A specific comparative advantage of small states is namely in the easier achievement of policy consensus and its better implementation (see Katzenstein, 1985).

- Stimulating growth of TFP by raising educational structure and introducing lifelong education of the population, by increasing investment in results-oriented R&D and strengthening cooperation between science and economy, by strengthening innovation capacity and the role of knowledge as factors of growth (see Bučar, Stare, 2003)\textsuperscript{26}, and by faster technology transfer from abroad (its adaptation and assimilation), including by FDI.\textsuperscript{27} All this with the aim of increasing value added, raising innovation capacity of the economy and thereby shortening the time of changing inventions into innovative products and services – because time and innovativeness are becoming an essential comparative advantage – and lastly specialisation on core competencies,

- International economic relations have to – parallel to the greater importance of the growth shift and growth clusters scenarios – diversify also in the direction of dynamic areas outside the EU. Only EU integration is not enough. Economic relations with probable development centres (in particular the US and Asia) have to be strengthened, as well as with oil producing states, because their geopolitical importance shall rise in the future,

- Acceleration of the effective introduction of competition in all fields, including an increased labour market flexibility, especially in the area of telecommunications services that shall contribute to cheaper and better services,\textsuperscript{28} and consequently to

\textsuperscript{21} Producing for unknown buyers eliminates the need to create “expensive” trademarks that are necessary to the manufacturers of final products. Simultaneously, such specialisation does not require an elaborate global network to market globally expensive new products in the shortest possible time.

\textsuperscript{22} Efforts should be made that Slovenian (multinational) companies would, at least in some areas, change from being a spoke to being a hub.

\textsuperscript{23} These relate to the overall effectiveness of the society/government in the narrow sense, while in the framework of EU membership it relates mainly to the capacity to prepare projects, their evaluation and monitoring their implementation.

\textsuperscript{24} The Development Report (UMAR 2002) correctly indicates that there is an implementation deficit while Sicherl (2002) is of the opinion that the coordination deficit in preparation and implementation of sustainable development in Slovenia has to be stressed more vigorously.

\textsuperscript{25} This is not only a Slovenian problem, it is also characteristic for the EU. Governing has become excessively complex in the EU, sometimes even confusing. There are inconsistencies between responsibility and instruments. These weaknesses are weakening the EU’s economic results and can cause an even bigger damage to the future enlarged EU (Sapir et al., 2003, p. 89).

\textsuperscript{26} We presume a relevant change in values, which currently give priority to rent-based financial success rather than to creativity and innovation.

\textsuperscript{27} Most studies indicate that FDI can be an important factor of TFP promotion, they have higher productivity than domestic companies, export more etc. (see, for Slovenia, Rojec and Šušteršič, 2002, for China Ji Li et al., 2003: 637). They simultaneously promote also a qualitative restructuring of exports.

\textsuperscript{28} In this manner, we would increase the quality level of services, their effectiveness and variety, thereby strengthening the competitiveness of the trade sector (Stare, 1999), which is impeded by the uncompetitiveness of the non-trade sector. In Kozamernik’s view, the Slovenian trading sector would, under unchanged conditions, catch up with the productivity of industrial leaders in about 25 years, while the non-trading sector would achieve this in a much longer period. Dynamically, the biggest problem is that the resources are being redirected from the more productive trading to the less productive non-trading sector (see 2003: 38 and 39).
higher utilisation of e-commerce in the private and public sector (see Stare, Kmet, Bučar, 2003), as well as promotion of public-private partnership because in the future, services shall increasingly be provided by private institutions.  
- Promotion of all aspects of internationalisation (inward and outward), also as a means of promoting competition and achieving higher degree of specialisation (searching for new market niches), thereby increasing the share of higher value added products in exports, and ensuring maintenance of current as well as gaining new market shares.  
- Advance incorporation of appropriate measures of mitigation of global economy’s negative impacts. One of them is geographic spreading of trade; another one is strengthening long-term forms of international cooperation (FDI, production-distribution networks etc.).  
- Change in mentality and value system; raising the importance of creativity, knowledge and innovativeness, not rent-based (resourcefulness), entrepreneurship.  

A successful implementation of the abovementioned policies can shorten the distance to and convergence with the developed EU member states. An unsuccessful implementation of these policies on the other hand can substantially slow down convergence, which is hard to achieve anyway. If we observe previous EU enlargements, it was only Ireland who has successfully caught up with the EU 15 average in less than 15 years (Barysch, 2003:5).  

Although we are witnessing an extremely fast technological progress, the emphasis in this area should be given to exports and introducing technology into production and organisational processes, in particular the information-communication technologies An example of a successful introduction of modern technologies is the US, while Japan is an example of a historically successful imitation strategy and organisational innovations as a successful factor of promoting development (lean production). One of the reasons for the European economy’s lagging behind is just the slow introduction of information technology into the economy (the implementation deficit) and thereby limiting synergic effects that the new technologies can bring about. Transfer of technology merits to be given priority because the capabilities of small economies to create new products and technologies are limited. Therefore a creative imitation/assimilation/adaptation and (selectively) innovation driven strategy would be more appropriate (see Svetličič, 1994 and Bučar, 2001). It is worth taking into account that innovation is not merely in producing new products and providing new services, but also introducing new ways of their production and marketing. Organisational changes are, in a situation where transaction costs represent the largest part of the price, at least as important as product and technology innovations. Adaptive effectiveness is as important as allocational or innovative (see North, 1990). Institutions play a major role; rule of law, intellectual property protection, all this is part of a friendly business environment.  

The state has to maintain its market orientation in the foreseen stronger public-private partnership, and not succumb to temptations of supporting selected sectors or searching for national champions and similar. This does not mean, however, that state support of R&D should be “excluded”, but rather its transformation in the direction of triple helix model of cooperation between science (university), economy and the state (priorities being set in cooperation and according to the capacities of all three sectors), with the aim of strengthening the capacity to introduce and adapt to novelties (not just technology). State dirigist type of 

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29 Many public services shall increasingly be exposed to global competition. This is true both for universities and hospitals, as well as various government agencies, because Internet shall enable consumers to be informed about all services available elsewhere in the world (see Drucker, 2001).  
30 See inter alia Sapir, 2003: 95.
intervention what Hayek has described in “Fatal Conceit” (1988) is bad from the economic and political standpoint because it hinders democracy and public trust in democratic governments. Large companies can hinder democratic processes because of their much larger strength than that of individuals. The state should ensure comparatively lower taxation rates (especially of labour), which would stimulate the influx of foreign capital, but mainly – which is developmentally very important – of headquarters of large multinational companies or the location of their R&D, marketing and other activities in Slovenia, with all indirect spill-over positive effects.

In the long-term, it is becoming evident that development can be promoted only by striking an appropriate balance between competitiveness and the welfare state. Research (see Grauwe and Pollar, 2003) shows “that countries with well-developed social security systems do not necessarily face a the trade-off between social spending and competitiveness. On average, countries that spend a lot on social needs score well in the competitiveness league. The test of reverse causality from competitiveness to social spending found weak importance”.

It seems that a social consensus on the basic directions of the development strategy is a basic requirement for the development, for improving welfare at certain development level. The question namely arises whether social consensus can be achieved as a result of successfull development or successful development is a result of such a consensus. It may also depends on the development level and the conditions of the country concerned (path dependency). Shortly the relative imporatnce of development consensus is different in different countries. How to integrate the efforts and to assure the prevalence of criteria based on the interest of the society as a whole are the biggest problems when directing social and economic processes in Slovenia (Sicherl, 1994b). Social consensus is the very quality that separates a paper document from the Schumpeter’s “national spirit” as an important factor of economic development.

**Conclusion**

Despite the substantial progress during the transition period and its position in the top group of the new EU member countries, Slovenia is still significantly behind the developed countries, especially in the degree of internationalisation (exports, FDI), technology development, introduction of new products and services, state effectiveness and productivity in general. With EU membership, a completely new era for the Slovenian economy’s development in the new “national” economy of the EU shall arise. Membership shall accelerate the Slovenian economy’s transformation process towards higher specialisation and new allocation of resources in accordance with the new configuration of production factors in the EU, a process that should have been started years ago. Consequently, this process shall be significantly more painful now than it would have been, if it was started years ago, but also because the enlarged EU shall have to transform itself simultaneously and intensively both with respect to its nature (restructuring) as well as organisationally and politically (constitution). Slovenian economy is still insufficiently specialised with excessive broad production orientation, inherited from the Yugoslav times.

Although it is impossible to predict with certainty, which global development scenarios shall prevail, the growth leader scenario has more potential to succeed in the short- and medium-term. From 2010 on, however, one can expect that the development clusters and growth shift scenarios shall gain in importance. In the period until 2010 it is therefore reasonable to expect that world trade liberalisation in the area of industrial products shall continue, while the pace
of changes in the area of agriculture and textiles shall be much slower. Because of the economic success and a leading role of the American economy in the world, it is realistic to expect that labour market flexibility shall increase, as well as competition in the non-trading sector in Europe, bringing it closer to the American model. FDI and technology transfer from the largest corporations to less developed countries shall be the main development acceleration tools. Restructuring should be more bottom-up than in the top-down driven process. The situation should gradually change and the planning role of governments and the public-private partnerships in the creation of growth clusters within the context of global production and services restructuring should gain in importance. In the EU framework, this means finding new relations between the EU institutions, member states and private players, the preconditions of which is also establishing new self-regulation stakeholders (Safir et al., 2003: 81).

Quantitatively, Slovenia is still behind the EU 15 average by 18 years with respect to labour productivity, and 10 to 30 years with respect to exports of goods per capita if compared with the successful smaller EU 15 member states. In the last decade, the real GDP growth rate in Slovenia has been 1.8% higher than the EU 15 average. If this difference were increased in the following period to 2%, Slovenia would equalise with the EU 15’s GDP per capita by purchasing power in 16 years. Enormous efforts need to be made to achieve that. Based on that assumption, we would require 20 years to overtake Austria, which is currently the last among the five leading EU 15 member states.

Slovenia is not well prepared for a knowledge-based society. It is not only the observed time distance with respect to the relevant indicators; it is also in the mentality that old ways can be successful in the new globalized environment. A learning society requires also a different exchange and utilisation of information, as well as integration of strategies of companies, social partners and policies in all areas. This means not only economic, but also political specialisation in areas of one’s own comparative (competencies) advantages and thus an increase one’s own political weight within the EU in other less competent fields. Many crucial decisions for new members shall be namely made in Brussels. In this manner, a small country can become important in one area and can gain importance also in others (non-specialised) areas where it is weak, irrespectively of its available resources. After gaining certain rights, they can be consolidated. This strengthens a given country’s resources (Baillie, 1996), which can be implemented also when protecting interests in other fields. Seizing opportunities thus means not only searching for the best development priorities for oneself, but also struggling for the best priorities within the EU as the global economy player.

The extent at and the time in which we shall reach the development level of the EU’s developed member states depends on the implementation rate of the competition-strengthening policy and on the macro-political (lobbying, negotiation) success. A key role in this process shall be played by:

- a flexible and rapidly adjustable strategy of responding to global trends,
- a higher specialisation within the EU and globally,
- a raise in TFP (education, R&D investment and innovation, imports of technology and FDI),
- a stronger internationalisation and promotion of the development of our own transnational corporations,
- ensuring competition in all areas.
Slovenia can attempt to achieve all this only under the condition of general change in mentality, values and overcoming the coordination deficit (government, public sector, companies, social partners and civil society), which is an important development barrier in Slovenia. Creativity, flexibility and fast responsiveness as well as the elimination of coordination and implementation deficits represent the basic elements on the way of catching up with the developed countries.
Bibliography


