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Development Level and Competitiveness of Non-Financial Market Services

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Summary

Analysis of the level of development and competitiveness of non-financial market services in Slovenia since 2000 points to a catching-up process that, across service activities, was rather unbalanced. Shifts in the structure of value added and in productivity and profitability indicate that the extent to which the economy lagged behind developed economies (or behind the EU average) was narrowed most in the distribution and transport services that are traditional market services. "Knowledge-based" services (telecommunications and business services) also achieved significant progress, particularly in the period 2000-2004, while the rate of catch up slowed down again in the last two years (2005 and 2006), as evidenced by the structure of added value. With a view to aligning with the EU structure of added value in services, the greatest potential for growth remains in business services. The competitiveness of non-financial market services on external markets (as measured by their integration into international trade flows) is lowest in high value-added services. Nevertheless, some positive trends have been observed recently (2004-2006) after several years of stagnation. The excessively slow development of knowledge-based services can, to a certain extent, be explained by low levels of innovative activity. Notwithstanding progress in the period 2000-2004, Slovenia ranks among the countries with the lowest levels of innovation in services. Of particular concern are the low levels of innovation in business services, since this constitutes an additional weakness in terms of factors of competitiveness of services and of the economy as a whole, given the fact that knowledge-based business services are both drivers of and catalysts for innovation processes in the economy in general. Analysis of movements in the number of firms and of the concentration in non-financial market services also highlighted certain trends, which, in terms of boosting competition as an important determinant of competitiveness, are unfavourable and impede faster progress. We maintain that, in order to make a more decisive breakthrough in market services, especially in the knowledge-based services that lag most behind developed countries, policies in different fields need to be coordinated. We particularly emphasise the need to encourage innovation in services, to invest in ICT, to strengthen inter-disciplinary education and skills acquisition and to establish efficient monitoring of competition. Only in this way can Slovenia successfully take on the modern challenges of service development.