



University of St.Gallen

Institute for Law and Economics

SWISS TRADE MONITOR



Edition 8:

The Curious Rise of Slovenia



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From insight to impact.

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Key Findings

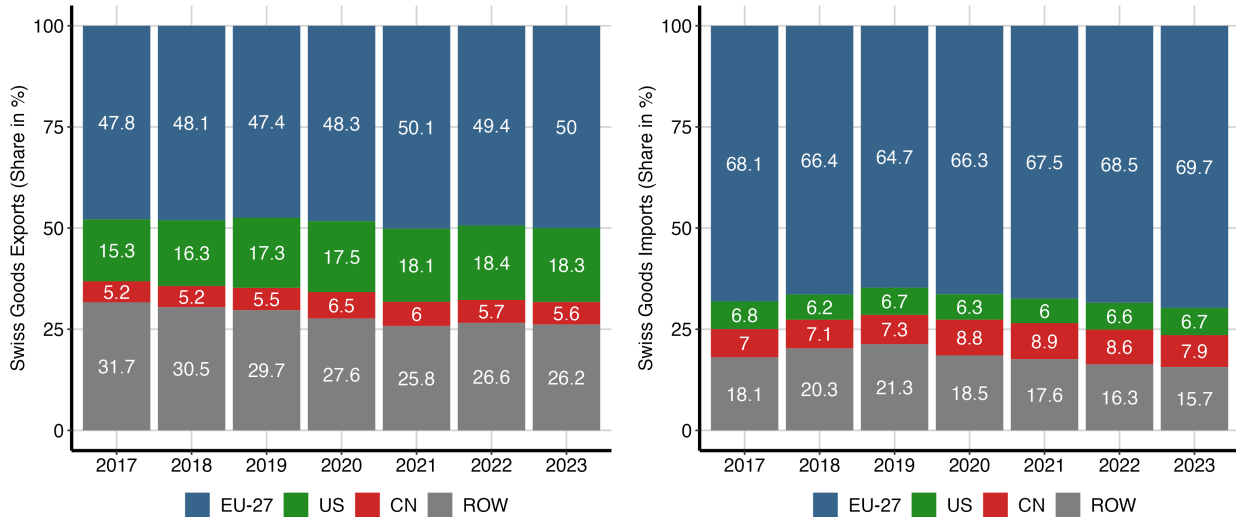
- For a long time, Slovenia was one of the EU member countries with the smallest trade volume with Switzerland. This has changed rapidly within just a few years.
- Today, Slovenia is Switzerland's fourth most important partner in the EU for goods trade. For Slovenia, Switzerland is the most important trading partner in the world.
- The pharmaceutical sector dominates Swiss-Slovenian goods trade. Starting in 2019, HS-30 trade increased from very low levels to more than a billion Swiss Francs a month. In addition, Swiss HS-29 exports (raw pharmaceutical products) add hundreds of millions.
- We suggest that EU pharma regulation as well as corporate tax motives can explain this development.

The Swiss Trade Monitor

Switzerland is a small open economy. The international exchange of goods and services is crucial for the nation's economic prosperity. The aim of the *Swiss Trade Monitor* is to document key trends in Switzerland's foreign trade. Its eighth edition first provides a quick overview of Switzerland's trade with EU countries. In this regard, the rapidly increasing importance of Slovenia is particularly noteworthy. The second part of this edition provides an explanation for this development. The data sources for this report are the Swiss Federal Office for Customs and Border Security (FOCBS), the IMF as well as the ITC's Trade Map.

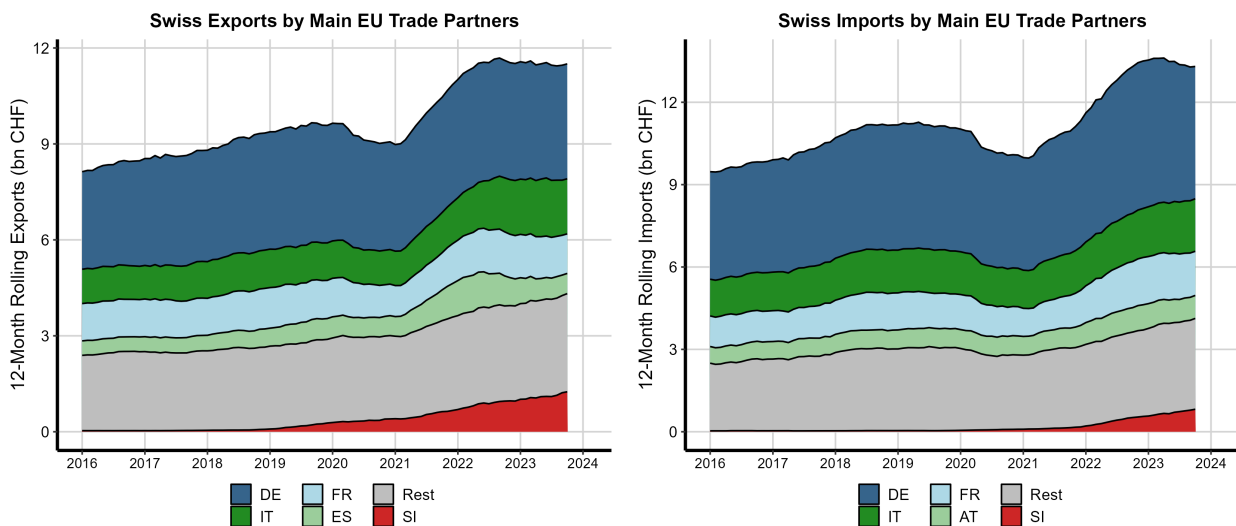
Switzerland's Trade with EU Countries

The European Union (EU) is by far Switzerland's most important trading partner. Considering trade in goods, the 27 nations of the EU-27 account for 50 percent of all exports and close to 70 percent of all imports in 2023.



Note: The figure shows shares of Switzerland's total goods exports (left figure) and imports (right figure) for seven separate years (2017–2023), separated by major partners (EU, USA, China) and the rest. For 2023, only the first ten months are covered.

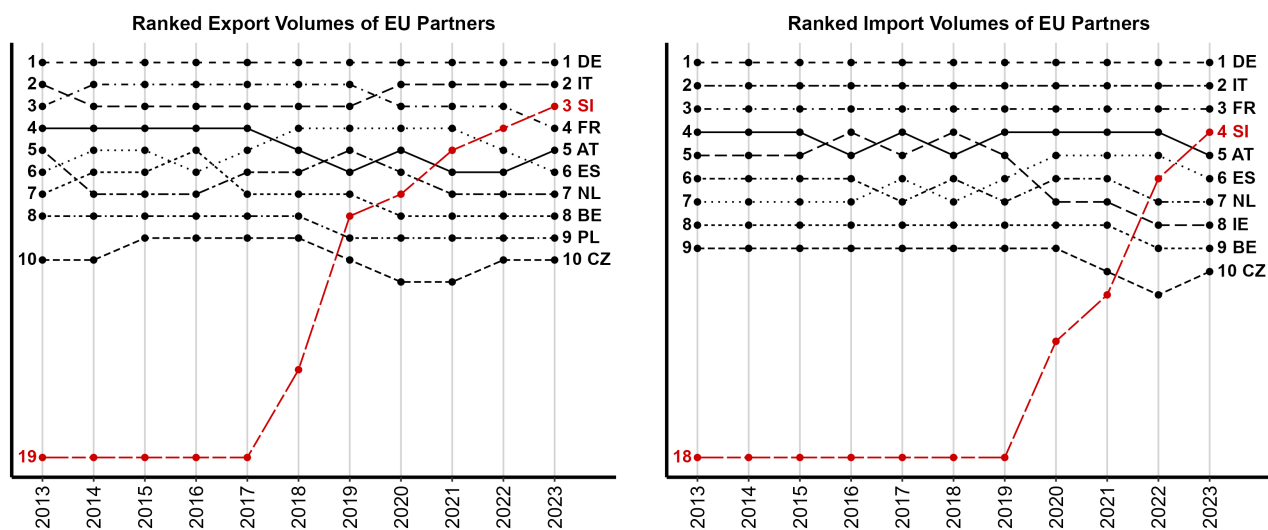
When monthly trade with the EU-27 is broken down into individual countries, we observe that Germany, Italy, France, Austria, and Spain are the most important partners. What is also striking in this breakdown, however, is the sudden increase of trade with Slovenia.



Note: The figure shows Switzerland's total goods exports (left figure) and imports (right figure) for eight separate years (2016–2023) on a 12-month rolling basis, separated by major partners in the EU-27 (DE, FR, IT, ES, AT, SI) and the rest. For 2023, only the first ten months are covered.

Slovenia's Rising Importance

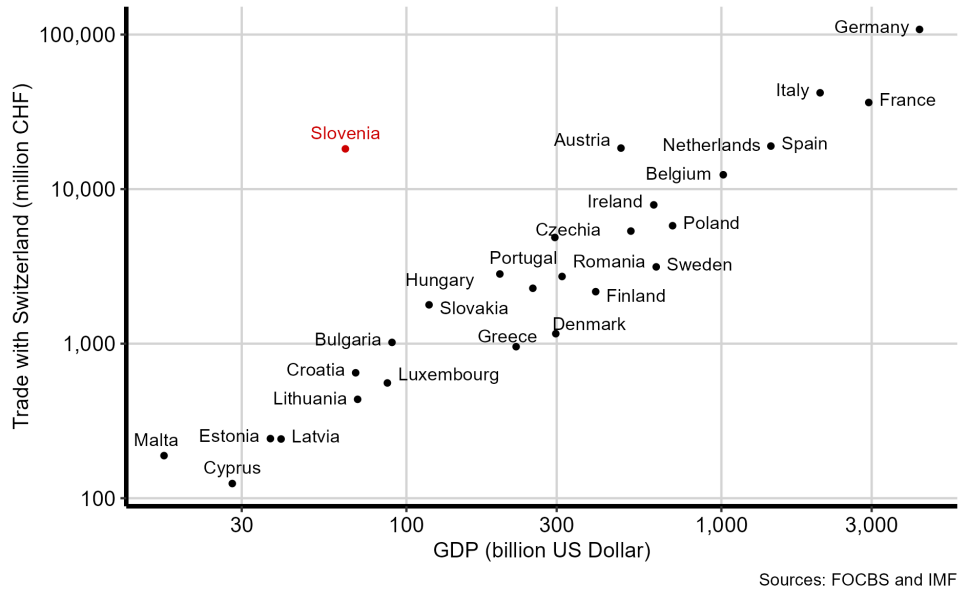
The rising significance of Slovenia is also shown by an analysis of EU country ranks by absolute trade volume with Switzerland from 2013 to 2023. As is well known, Germany is Switzerland's most important trading partner in terms of both exports and imports. It is followed by Italy and France. However, Slovenia's rise is impressive. Up to and including 2017, Slovenia was only the 19th most important trading partner for Switzerland in terms of trade volume on the export side. In the following years, it climbed to the 3rd rank. The result on the import side is pretty much the same, with Slovenia being ranked 18th place up to and including 2019 and being in the 4th place now.



Note: The figure shows the rank of Switzerland's most important trade partners of the European Union, descending in absolute trade volume for exports (left figure) and imports (right figure). Countries were selected to represent the top-10 trading partners (in the EU-27) for exports and imports in 2023. Only the first ten months are covered for 2023.

The rise of Slovenia is particularly curious for two reasons. First, there is a high continuity among Switzerland's most important trading partners. All of the top-10 sources of imports or destinations of exports in 2023 were in the top-10 a decade earlier — except Slovenia. Second, it is remarkable how quickly the Swiss-Slovenian trade increased.

The outsized trade volume between Switzerland and Slovenia becomes apparent when plotting Swiss trade volumes against EU member’s gross domestic product (GDP). As the figure below reveals, there is a close relationship between the two variables. Slovenia, however, clearly stands out.

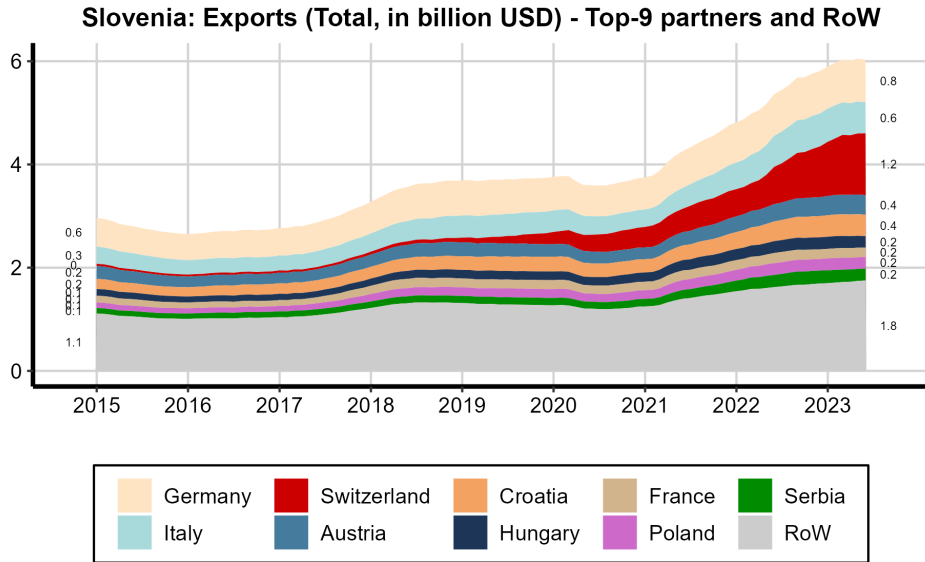


Note: The figure plots EU countries’ GDP against their goods trade volume with Switzerland in 2022.

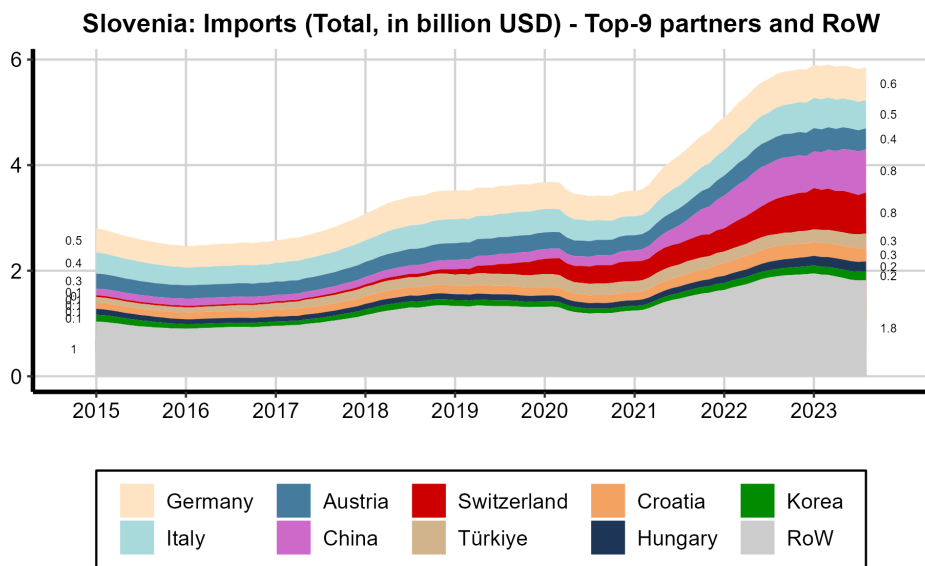
Typically there is a strong relationship between bilateral trade flows and countries’ GDP as well as geographic distance. This is known among trade economists as gravity model. Countries trade more with large economies and nations that are geographically close.

For Switzerland it follows that Germany, Italy, and France are the most important trading partners in Europe. Not surprisingly, Spain and Austria are the next most relevant partners. However, we observe in the chart that Slovenia with a gross domestic product of only \$70 billion — about a tenth of Austria’s — has a virtually identical trade volume with Switzerland.

The rising importance of Slovenia for Switzerland’s foreign trade is mirrored in Slovenian data. As the following charts illustrate, Switzerland is now Slovenia’s most important trading partner in the world. On the Slovenian export side, Switzerland ranks first while on the import side, China plays a key role as well.



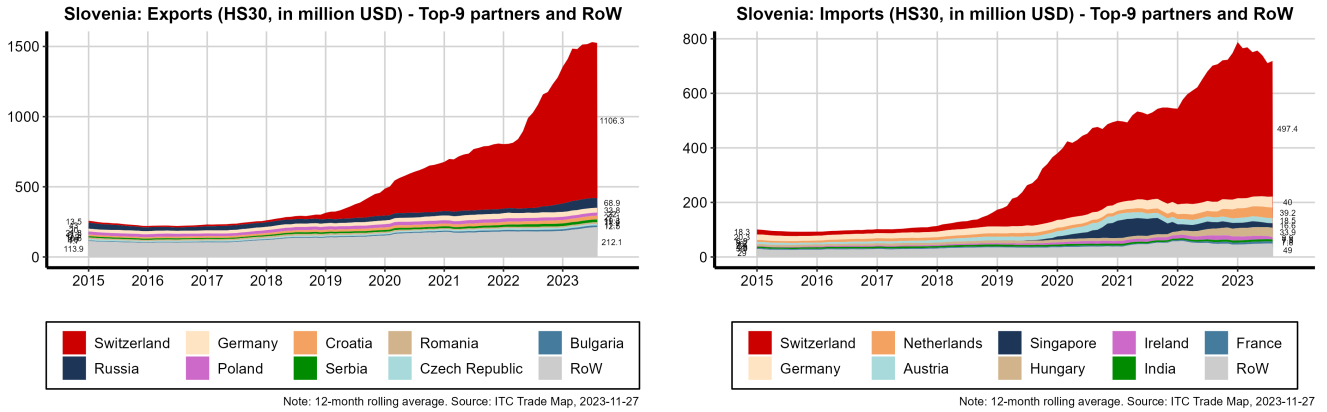
Note: 12-month rolling average. Source: ITC Trade Map, 2023-11-27



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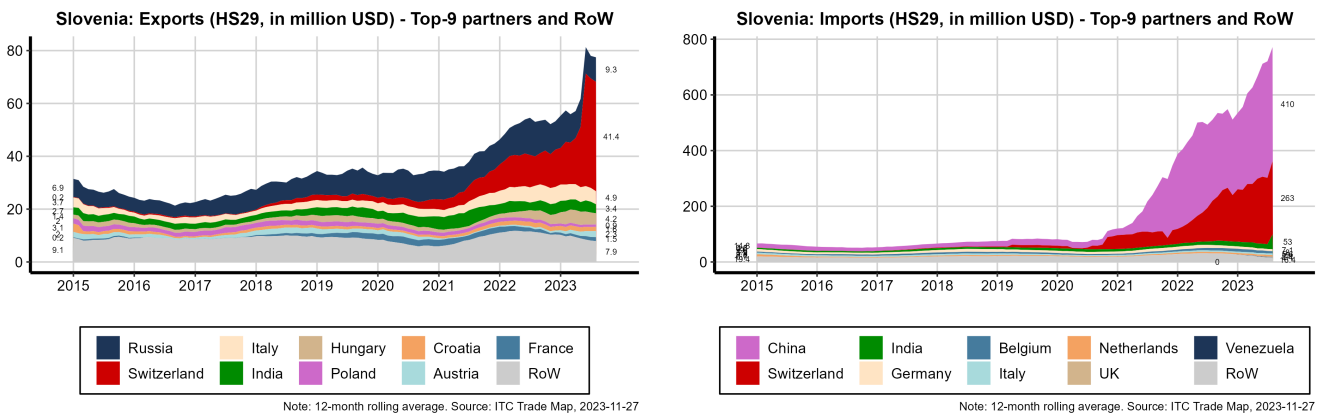
Note: The figure shows Slovenia’s foreign goods trade for exports (top figure) and imports (bottom figure). Countries were selected to represent the top-9 trading partners for exports and imports in 2023.

The remarkable rise of Swiss-Slovenian trade in recent years is almost entirely due to two product groups: chemicals (HS-29) as well as pharmaceuticals (HS-30). Switzerland is by far Slovenia's most important trading partner for HS-30 products. The latest data show *monthly* Slovenian HS-30 exports to Switzerland of more than one billion US Dollars and imports worth about half a billion.



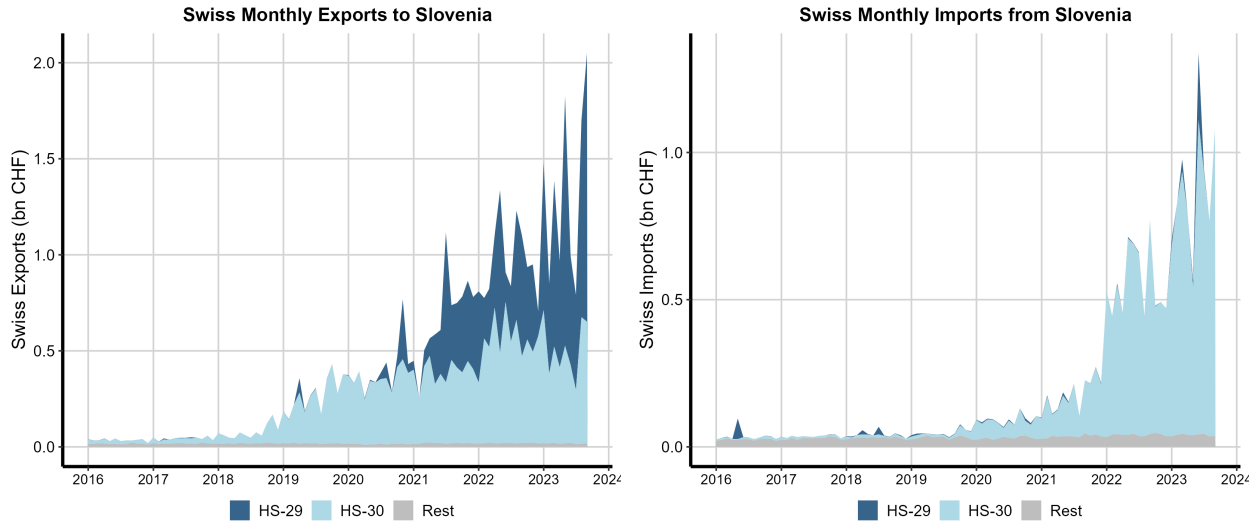
Note: The figure shows Slovenia's foreign goods trade for HS-30 exports (left figure) and imports (right figure). Countries were selected to represent the top-9 trading partners for exports and imports in 2023.

Looking at HS-29 exports and imports of Slovenia, we observe that in addition to Switzerland, China has become a key supplier since 2021.



Note: The figure shows Slovenia's foreign goods trade for HS-29 exports (left figure) and imports (right figure). Countries were selected to represent the top-9 trading partners for exports and imports in 2023.

Looking at Swiss customs data again, we see that Swiss-Slovenian trade volumes were extremely small until 2019. Subsequently, we first observe only an increase in HS-30 exports, later followed by HS-30 imports as well as HS-29 exports starting in 2020. In this regard it is worth pointing out that raw materials for pharmaceutical products are classified as HS-29 products.



Note: The figure shows the exports (left figure) and imports (right figure) with Slovenia separated by the most important HS-chapters (29 and 30) and the rest in billion CHF.

In 2023, the lion’s share of Swiss imports from Slovenia are medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses (HS code 3004.9000). The exports of the same HS code explain a third with the rest being heterocyclic compounds with nitrogen hetero-atoms (HS codes 2933.1900 and 2933.9980 in particular).

Regulation, Taxes, and the Surging Swiss-Slovenian Trade

What explains the surge in the bilateral trade between Switzerland and Slovenia, driven by chemicals and pharmaceutical products? While the trade data do not provide all the answers, we can work with publicly available information. Putting several pieces together, we can attempt to provide a rationale.

First, the Swiss pharmaceutical industry is dominated by a small number of players, in particular Roche and Novartis. Regarding a relationship with Slovenia, it is important to note that in late 2002 *Lek Pharmaceuticals* became a part of the Novartis Group after a friendly 1.2 billion CHF takeover.¹ One possible explanation of the surge in Swiss HS-29 exports starting in 2021 can be Novartis' strategic investment in a state-of-the-art packaging center at the Lendava site of Lek in Slovenia. This investment, amounting to over 24 million Euros, aimed at meeting the growing demand for medicine packaging. In total, Novartis invested more than 110 million Euros at Lek's Lendava site overall.² Since the takeover two decades ago, Novartis and its now again standalone company Sandoz invested more than three billion Euros in Slovenia.³

The second crucial piece of the puzzle is the general political climate in Europe. From 2016 onwards, the European Union took a more aggressive approach against non-member states. This was particularly relevant for the United Kingdom (June 2016 Brexit referendum) as well as Switzerland (failed institutional framework agreement). For Swiss pharma companies this development was particularly important.

Concerns about Swiss pharma companies' access to the European market grew when in 2017 a German court ruled against a Swiss domiciled group.⁴ The case revolved around a large life science company. Its affiliated company in France produced pharmaceuticals which were sold in Germany by a subsidiary of the Swiss firm. While the products were never moved to Switzerland, for tax reasons *inter alia* the Swiss parent company temporarily owned them. The court ruling established the guiding principle that wholesalers of medicinal products may only procure their stocks of medicinal products from entities that hold a license issued by a member state of the European Union. A license to wholesale medicinal products granted under Swiss law is not sufficient for this purpose.

After this court ruling, the Swiss company effectively had two options. Either it would change

¹For more details on the company, visit <https://lek.si/en/about-us/history/>.

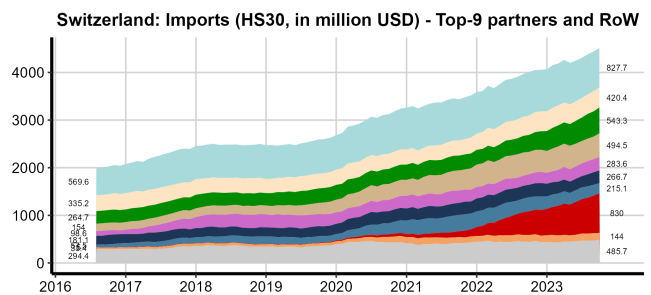
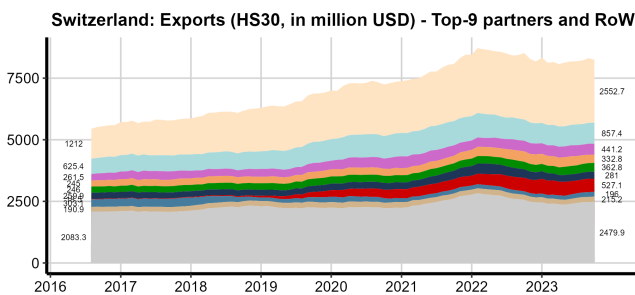
²For more details on the packaging center, visit <https://lek.si/en/media-room/press-releases/842/lek-in-lendava-opens-the-largest-novartis-investment-in-slovenia-ever/>.

³Solothurner Zeitung, April 22, 2023.

⁴In total, there were three court rulings: VG Düsseldorf - 21.06.2017 - AZ: VG 16 K 8045/16, OVG Münster - 19.11.2019 - AZ: OVG 13 A 1951/17, and BVerwG 3 C 1.20.

ownership rights or serve the German market in a different way. The former approach would imply that a larger part of the profits will be subject to taxation in the respective EU member state. The latter approach would imply that pharmaceuticals produced in EU countries need to be physically moved to Switzerland and then sold to the destination market. Looking at Swiss HS-30 trade in recent years it appears the second option was chosen, EU markets are served in a different way.

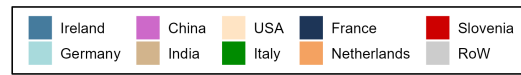
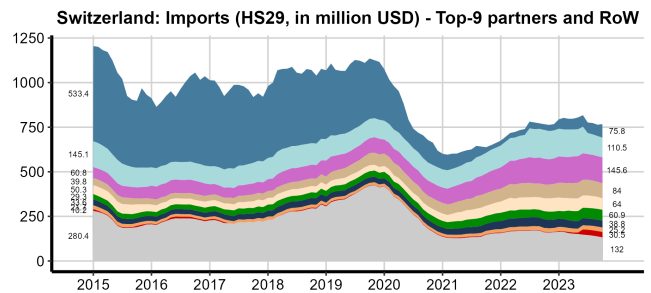
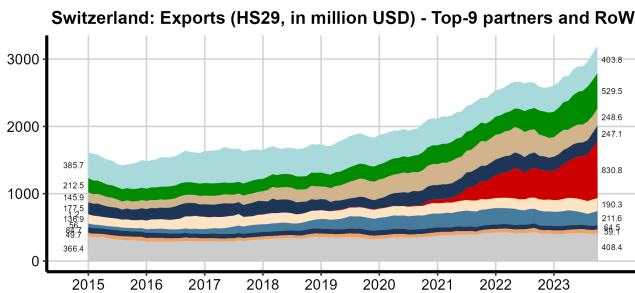
If this was the case, we would expect Swiss pharma imports from EU countries to increase. Looking at the data below, this is confirmed. Monthly HS-30 imports doubled in six years. A large fraction of the increase is explained by Slovenia, but imports from Spain, Italy, or Germany also increased notably.



Note: 12-month rolling average. Source: ITC Trade Map, 2023-11-27

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Note: The figure shows Switzerland's foreign goods trade for HS-30 exports (left figure) and imports (right figure). Countries were selected to represent the top-9 trading partners for exports and imports in 2023.



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While the trade data do not allow us to prove which company is responsible for the rising Swiss-Slovenian trade, it could be that Novartis intensified its cooperation with Lek in response to the above-mentioned developments. From 2018 onwards, we observe growing Swiss HS-30 exports to Slovenia. About two years later, the data also show sharply rising HS-29 exports. This could be raw materials for medicine which is then packaged in Slovenia and (partially) re-imported — explaining the rising Swiss HS-30 imports from Slovenia since 2020.

Conclusion

In this edition of the Swiss Trade Monitor we shed light on the trade relationship between Switzerland and Slovenia. For many years the bilateral trade volumes were small — in line with Slovenia's small economy. However, in recent years the country turned into one of the most important trading partners for Switzerland. This is entirely due to trade in chemicals and pharmaceutical products. We document this development and suggest that EU pharmaceutical regulation as well as corporate tax motives could explain it. Ultimately, the case highlights that we ought to be careful interpreting international trade flows and why they happen.

Appendix: HS Sections — Descriptions

1	Live Animals	49	Printed Books, Newspapers
2	Meat	50	Silk
3	Fish	51	Wool
4	Dairy Products	52	Cotton
5	Products of Animal Origin	53	Other Textile Fibers
6	Live Trees and Plants	54	Man-made Filan-Made Textile Materials
7	Edible Vegetables	55	Man Mad Staple Fibers
8	Edible Fruit and Nuts	56	Wadding
9	Coffee, Tea, Spices	57	Carpets
10	Cereals	58	Special Woven Fabrics
11	Products of the Milling Industry	59	Impregnated, Coated or Laminated Textile Fabrics
12	Oil Seeds	60	Knitted or Crocheted Fabrics
13	Lac, Gums, Resins	61	Articles of Apparel (knitted)
14	Vegetable Plaiting Materials	62	Articles of Apparel (not knitted)
15	Animal and Vegetable Fats and Oils	63	Other Textiles
16	Preparations of Meat or Fish	64	Footwear
17	Sugars and Confectionery	65	Headgear
18	Cocoa	66	Umbrellas, Walking Sticks
19	Preparations of Cereals, Flour	67	Prepared Feathers
20	Preparations of Vegetables	68	Articles of Stone, Plaster, Cement
21	Misc. Edible Preparations	69	Ceramic Products
22	Beverages	70	Glass and Glassware
23	Residues and Waste of Food Industries	71	Natural or Cultured Pearls, Precious Metals
24	Tobacco	72	Iron and Steel
25	Salt, Sulfur, Earths, and Stone	73	Articles of Iron or Steel
26	Ores, Slag, and Ash	74	Copper or Articles Thereof
27	Mineral Fuels and Oils	75	Nickel or Articles Thereof
28	Inorganic Chemicals	76	Aluminum or Articles Thereof
29	Organic Chemicals	78	Lead or Articles Thereof
30	Pharmaceutical Products	79	Zinc or Articles Thereof
31	Fertilizers	80	Tin or Articles Thereof
32	Tanning or Dyeing Extracts	81	Other Base Metals
33	Essential Oils	82	Tools, Cutlery
34	Soap	83	Misc. Articles of Base Metal
35	Albuminoidal Substances	84	Nuclear Reactors, Boilers
36	Explosives	85	Electrical Machinery
37	Photographic or Cinematographic Goods	86	Railway or Tramway Locomotives
38	Misc. Chemical Products	87	Vehicles
39	Plastics and Articles Thereof	88	Aircraft, Spacecraft
40	Rubber and Articles Thereof	89	Ships, Boats
41	Raw Hides and Skins	90	Optical, Photographic, Precision Instruments
42	Articles of Leather	91	Clocks and Watches
43	Furskins and Artificial Fur	92	Musical Instruments
44	Wood and Articles of Wood	93	Arms and Ammunition
45	Cork and Articles of Cork	94	Furniture
46	Manufactures of Straw	95	Toys
47	Pulp of Wood	96	Misc. Manufactured Articles
48	Paper and Paperboard	97	Works of Art