# Small states and EU and NATO integration: Experiences of Slovenia and Challenges for Montenegro

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# Small states and EU and NATO integration: Experiences of Slovenia and Challenges for Montenegro

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This paper is focused on a comparative analysis of two small states experiences on their path from SFRY to the EU in the context of economic development model and strategic foreign policy priorities. What was experience for Slovenia on its transition from independence towards full fledged membership in the EU and NATO is challenge for Montenegro today. When it comes to model of economic development and analysis of main pillars of economic competitiveness in time of crisis – challenges remain for both small states, being today a new member or just a candidate country for the EU membership.

Slovenia and Montenegro are two countries, geographically positioned on the "intersection" of the Central and South-Eastern Europe, which were members of the same state, i. e. Kingdom of Yugoslavia (1918–1941) and Socialist Yugoslavia (1945–1991). The independence of Slovenia (and Croatia) in 1991 resulted in geopolitical changes in the region, where Montenegro and Serbia constituted the Federative Republic of Yugoslavia (1992-2002) and then State Union Serbia and Montenegro (2003-2006). After referendum on May 21, 2006, Montenegro declared its independence. After the 1991 Slovenia and Montenegro followed a different path of economic transition. Whether Slovenia in the 90s accelerated its pace towards the European and the Euro-Atlantic integrations and market-economy (focused on export oriented development model, Montenegro opted for a stronger interventionist approach in national economy during the transition recession and introduced intensive economic reforms after 2000. Having being in the three different state frameworks before regaining independence, Montenegro experienced very turbulent period of economic development, from de-agrarised and state-driven industrialised ex-Yugoslav Republic dependant on local market, via transition recession, stagnation, slow recovery based on gradual expansion of services, de-industrialisation and FDI driven model of development.

In 2004 Slovenia became member of EU and NATO, while Montenegro obtained the status of the EU candidate country in 2010 and open accession talk with the Union in 2012. Montenegro aspires to join NATO and the Allies are due to take a decision on its membership by the end of 2015. Comparing to the successful political transition of both countries, the economic transition has been slower and more difficult. The inconsistencies in economic policy, slow transition towards the market economy, large state interventionism and the reluctance towards the necessary (economic and political) reforms impacted negatively the national competitiveness of Slovenia and Montenegro. This has become evident during the time of current economic crisis, which has displayed some serious concerns of the economic transition in both countries. Both states are small and open European economies that are why they are also more vulnerable to external shocks. However, economic openness next of being a threat can offer also lots of opportunities for small states, i. e. to be a niche player and a free rider. We argue in this paper that a strong collaboration between two small states on one hand increases advantages of the international market and national competitiveness, while on the other hand it minimises possible external turbulences and threats.

**Key words:** EU and NATO integration, transition, Slovenia, Montenegro

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## 1. Introduction

Transition is a relatively new term in the area of social sciences and includes the processes of pluralisation and democratization in former socialist countries (Vojnic, 1994; 5-6) and can be observed, at the same time, from the economical and political point of view. Some countries went through changes in the economy simultaneously with significant changes in the political situation (e.g. declaration of independence adopted by Slovenia) while some countries regained its independence after a more than decade long period of so-called transition recession (Montenegro). From the economic point of view, transition implies the process of transformation of non-market, or centrally planned economy into an open market economy (based on export oriented model of development as Slovenia or FDI driven model of development as Montenegro).

In addition to political and economic reforms, transition also implies creation of new development paradigm based on competitive and open national economies. For ex-Yugoslav republics, transition also includes re-integration into numerous international organisations (WTO, OSCE, etc.), approach to a different international financial institutions and starting process of integration to the European Union and NATO.

**Slovenia and Montenegro** are two small European countries, geographically positioned on the "intersection" of the Central and South-Eastern Europe, which were in the past also members of the same state, i. e. Kingdom of Yugoslavia (1918–1941) and Socialist Yugoslavia (1945–1991). An overview of selected indicators is presented in the table 1:

*Table 1 Slovenia and Montenegro: selected indicators*

| | **Slovenia** | **Montenegro** |
|---|---|---|
| Geographic size | 20.273 $km^2$ | 13.812 $km^2$ |
| Location | South Central Europe, Julian Alps btw. Austria and Croatia | South-Eastern Europe, btw. The Adriatic Sea and Serbia |
| Coast line | 46.6 km | 293.5 km |
| Population (2013) | 2,071,997 | 621,383 |
| Declaration of independence | 25 June 1991 | 3 June 2006 |
| EU | Member State since 1 May 2004 | Candidate country, Negotiate since June 2012 |
| NATO | 21 March 2004 | In 5$^{th}$ ANP in the period of intensified and focused dialogue with NATO |
| Foreign policy priorities | • European Union (AT, DE, IT); Neighbouring countries;<br>• Western Balkans<br>• Strategic Alliances (RF + USA + FR +TR).<br>• „New priorities“: economic diplomacy, green diplomacy, human(itarian) diplomacy | • Integration into the European Union – EU and North Atlantic Alliance – NATO<br>• Improving and maintaining good neighbourly relations and regional cooperation<br>• Developing bilateral and multilateral cooperation |
| GDP/PC in PPS, EU (in 2014) | 83 | 39 |
| Currency | Euro, since 1 January 2007 | Euro, since 1 January 2002 |

*Sources*: *https://www.cia.gov/library/publications/the-world-factbook/; UN statistics; www.mfa.gov.si, www.mfaei.gov.me (for foreign policy priorities, modified by authors);*

After the 1990 and dissolution of the SFRY, Slovenia and Montenegro followed a different path of economic and political transition. This paper is focused on a comparative analysis of two small states experiences on their path from SFRY to the EU (and NATO) in the context of economic development model and strategic foreign policy priorities.

In 1990 Slovenia had a plebiscite on its independence, on which the population decided that Slovenia should become an independent country in the six-month period. That is why Slovenia (and Croatia) in June 1991 declared its independence and started its transition period. The independence of Slovenia and Croatia resulted in geopolitical changes in the region which are finished today with creation of a seven new countries from ex-Yugoslavia sphere, out of which two are EU and NATO members.

At the same time Montenegro and Serbia constituted the Federative Republic of Yugoslavia (1992-2002) and then State Union Serbia and Montenegro (2003-2006). After referendum on May 21, 2006, Montenegro declared its independence. Today, Montenegro is candidate country for the EU, with three-year experience in accession negotiations. At the same time, Montenegro expects soon an invitation for NATO membership.

## 2. Data and methodology

This paper contains (statistical and analytical) data that generally rely on official sources from the UN national accounts statistics for selected economic indicators 1990-2013 such as GDP,  GDP/pc, Gross fixed capital formation, Trade balance and Employment. Statistical office of Montenegro and Statistical office of Slovenia were was the source for data on economic, financial, demographic, regional and social indicators of Montenegro.

The idea of the research is based on three pillars, which are relevant for both analysed countries (Slovenia and Montenegro):

1) Both countries are **small and transition countries**, with an European perspective (Slovenia is already a member of the EU, while Montenegro started the accession negotiation on membership in 2012),
2) Both countries have a **common past** in the Yugoslav integration and therefore there are some cultural and historical linkages between both countries, which can positively impact national economic competitiveness,
3) As small countries, both states are very **open economies** that are why they are also more **vulnerable to external shocks**. However, economic openness next of being a threat can offer also lots of opportunities for small states, i. e. to be a niche player and a free rider. We argue that a strong collaboration between two small states on one hand increases advantages of the international market and national competitiveness, while on the other hand it minimises possible external turbulences and threats.

Consequently, **the basic methods of research** are the (a) descriptive method (b) historical-critical analysis (c) statistical analysis and (d) comparative analysis. With these methods we are going to present the state-of-the-art of the economic transition and competitiveness of Slovenia and Montenegro.

The focus of our research is the question: "How can Slovenia and Montenegro through **political and economic cooperation** foster own economic competitiveness and accelerate own economic transition". To answer this question we have provided four partial research questions, stated as follows:

(a) Which are the main supporting and hindering **factors that impact the competitiveness** of Slovenian and Montenegrin economies?

(b) Can Montenegro **translate some good practices** from Slovenia's economic transition? If yes, which ones? Can Slovenia translate some good practices from Montenegro economic transition? If yes, which ones?
(c) What **sort of collaboration** should be established between both states to foster economic competitiveness?
(d) How important are **export and FDIs geographical diversification** for the increase in national economic competitiveness? Can state-institutions through own instruments (e. g. economic diplomacy, investment promotion agreements etc.) foster national economic competitiveness?

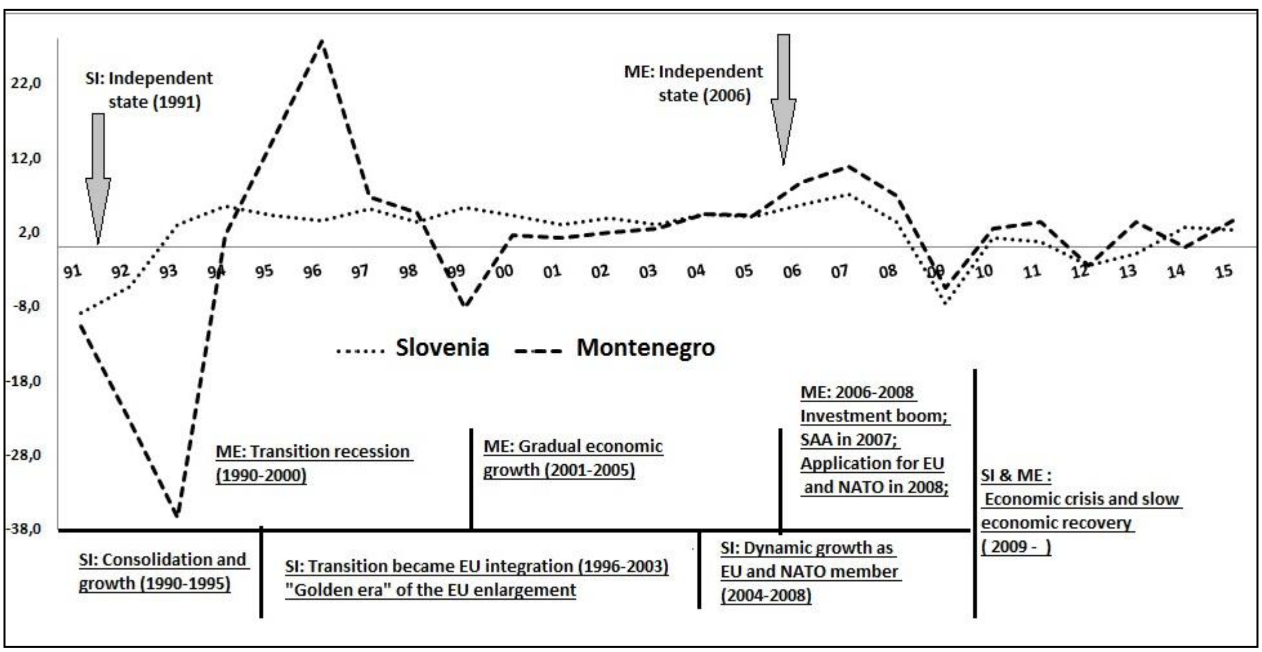
## 3. Results and disucssion

In line with the proposed research questions, and analysis of Montenegrin and Slovenian development model in the last 25-year period, research will be conducted through the periodisation according to specifics of policy measures and macroeconomic trends.

### 3.1. Development phases

According to official data summarized in real GDP growth, we can define a few **development phases** in the cases of Montenegro and Slovenia during the transition, i.e. integration in both countries. GDP real growth rate of Montenegro and Slovenia 1990 – 2015 and development phases are presented in Figure 1.

*Figure 1 Slovenia and Montenegro: GDP real growth rate 1991-2015 and development phases*




*Source: UN statistics for 1990-2013, (http://unstats.un.org/unsd/snaama/resCountry.asp) Statistical office of Montenegro/Monstat and Statistical office of Slovenia for 2014-2015; and authors' periodisation of development phases.*

### a. Slovenia

In the case of **Slovenia** (Figure 1), the first period can be named "**consolidation and growth**". This is a period in which Slovenia tried to consolidate its economy and to prepare it to become more competitive and able to cope with competitors on the global market. Here it is important to emphasise the decision for the transition model. Comparing to all other countries in Central and Eastern Europe Slovenia was the only country deciding for a so-called gradual model, where transition would be held in stages. Even though international experts advised Slovenia that maybe such model was not the most appropriate for Slovenia, it can be said that because of the introduction of the gradual model Slovenia retained the social cohesion and the societal structure, where national income is spread relatively in equal proportions. However it should also be noted that the step-by-step transition hindered the marketization of Slovenian economy. Since enterprises were not forced to adapt to the open markets instantaneously some of them have not adapted ever. That is why still today Slovenia faces some problems in the economic performance, which are not present in the CEE economies, (as for example lack of entrepreneurial behaviour, closed domestic economy to FDIs and new business activities etc.). Nevertheless the debate on how the transition should be done, Slovenia in four years stabilised its economy and political structure and was in June 1996 able to start the accession process towards the EU. The Stabilisation and association agreement with the EU landmarks the start of the next period in Slovenia's economy, namely the "**transition=integration**" process, lasted between 1996 and 2003.

The 1996-2003 period was important since Slovenia started to adapt its economic structure to the requirements of the EU. Raised competitiveness, increased GDP growth, decreased inflation rate and dropped unemployment were the official data that proved that Slovenian economy was recovering. To be fair, it is important to say that the even though the major impetus came from the negotiation process with the EU, also the economically positive situation in international community influenced the period of Slovenian economic transition. The positive trend in the national economy development accelerated especially after 2000, when the Slovenian enterprises had the possibility to return to the ex-Yugoslav markets. But already in early 2000 Slovenian economy showed some economic problems that reflected some of the disadvantages of the gradual transition. Among the most visible in the public was the "excessive" increase of inflation in 2002. The Ministry of Economy and the National Bank accused each other for the inflation excessiveness. The Ministry of Economy claimed that the inflation rose because of the low interest rates and larger M1, while the National bank argued that the growth in inflation can be attributed to the economic performance of enterprises. In next two years Slovenia lowered the inflation rate.

The year 2004 was a crucial year for Slovenia: in March it become a member of NATO, on the May 1 it entered in the EU, while in June it entered in the ERM2, being understood as the "EURO waiting room". In fall 2004 Slovenia had elections. After them for the first time the "right-centre wing" government was appointed. The politics of the government slightly changed from the previous governments since it was more "liberal" and more "conservative" (previous governments had a more Keynesian attitude). Slovenia in the period 2004-2008 benefited from the EU enlargement, and benefited also from the world economy prosperity. In this period

Slovenia had an average GDP growth of 5.25 %. In 2006 and 2007 there were some critics exposing that Slovenia can face the problem of "over-heating economy", if the growth will not decelerate. However nobody expected that the current economic crisis will hit Slovenia on a such large extent as it has. Whether Slovenia 2007 had a growth of 6.9 %, its growth in 2008 was still at the 3.3 % level. The period of the **"dynamic economic growth"** ended a year after when Slovenia faced its harsh reality, with an 8 % drop in its GDP and entered in the period of economic crisis (Eurostat data, 2014).

If we put in focus relation to the Western Balkans, the periodisation of Slovenian transition can be as follows: the first period 1990-1992 (independence and recognition), the ssecond period 1993-1996 („problems" with neighbouring countries; start of the EU accession process; „escaping" from the Balkans), the third period 1997-2002/2004 (Euro-Atlantic organization accession process; „forgetting" the Balkans), the fourth period 2004-2008 (becoming an EU member state; first EU Council presidency among the new member states, "instructing" the Balkans), the fifth period 2009-2012 (deepening in the EU integration; „returning" to the Balkans) and the sixth period 2013– (rise of Euroscepticism; „becoming" the Balkans) (Udovič, 2014).

### b. Montenegro

In the case of **Montenegro** (Figure 1), the first period can be named "**transition recession**", which marked the whole decade (1990-2000) with average real growth rate at -2.4%. While Slovenia in the '90s accelerated its pace towards the Euro-Atlantic integrations and market-economy, Montenegro was under different political and economic circumstances (UN economic sanctions and war in surroundings 1992-1995, and deep economic recession during '90s followed with two hyperinflation cycles) and opted for a stronger interventionist approach in national economy. Contrary to Slovenia, in Montenegro were no implemented any comprehensive programmes of the economic reforms in the first transition decade.

The second period of transition is a period of "**gradual economic growth**" (2001-2005) with average real growth rate of 2.8%). The economic reform process started in late 1999 with introduction of dual currency system, i.e. the German mark is is introduced as parallel currency with Yugoslav dinar in November 1999 and rapidly became the currency of choice for transactions and as a store of wealth. With its introduction, Euro became the sole legal tender in 2002 (IMF 2008; 34). It was the beginning of the first phase of real transition and the *first generation of reforms* which are characterized by gradual takeover of the jurisdiction in the area of macroeconomic governance from the federation /State Union level to Montenegrin government level. Three main pillars of gradual development of own economic policy were monetary policy, custom and foreign trade policy. It continued with dynamic price liberalization on the internal market, reduction of customs and non-tariff barriers, establishment of significant number of new institutions, adoption of strategic documents in key policy areas, which meant adoption of set of new regulations in the field of financial policy, customs, tax, and sectoral policies. Through different models of privatizations, including the model of mass voucher privatization in 2002 (that engaged 350 000 citizens), more than 80% of state capital became private property. In addition, period of gradual economic recovery was followed by gradual FDI growth. Having completed first generation of reforms (privatization, internal price and foreign-economic liberalization, macro-economic stabilization), Montenegro successfully implemented *the second generation of reforms* which cover the following: completing its own legal system, establishment and efficient functioning of market institutions, coordination of economic policies (Djurovic, Radovic, Djuraskovic, 2011; 16).

After regaining independence in May 2006, Montenegro experienced a period of a so-called "**investment boom**", which encompasses the institutionalisation of European integration process (signing of Stabilisation and Association Agreement (SAA) in October 2007 and opening of the EU accession negotiations in 2012). The application for NATO membership is submitted in November 2008. The first three years after regaining independence are characterized by extraordinary economic dynamics, average GDP real growth rate 2006-2009 was almost 9% and country achieved level of real GDP from the '90s in 2007, on the eve of the economic crisis. Average net FDI as percentage of GDP 2006-2009 was 25% (Central Bank of Montenegro, 2015).

*Third generation of reforms* could be defined as process of European integration and substantial growth of competitiveness of Montenegrin economy as a response to the challenges of the economic crisis. Opening of the economy, liberalization of foreign flows, fast growth of different economic sectors, low inflation rate, even budget surplus, strong FDI inflow, continuous reduction of unemployment rate, reduction of the external debt and high level of trade deficit are all basic characteristics of Montenegrin economy in the mentioned period. Business environment gradually became more attractive for investors, while the economic relations were strengthened in parallel, especially with European countries.

In the last six crisis years (period of "**economic crisis and slow economic recovery**" 2009-2014), average real growth rate was only 0.5% while public debt/GDP ratio has almost doubled, amounting more than 60% of GDP in 2015(PER, 2015; 2-4).

To conclude, having been in three different state frameworks (SFRY, FRY and State Union) before regaining independence, Montenegro experienced a very turbulent period of economic development, from deagrarised and state-driven industrialised ex-Yugoslav Republic dependant on local market, via transition recession, stagnation, slow recovery based on gradual expansion of services, deindustrialisation and FDI driven model of development.

### 3.2 Current economic situation

The economic crisis hit Slovenia really harsh. It can be remembered that at the end of 2008 when the entire world already discussed how to exit the economic crisis, in Slovenia people have not felt it yet. The situation was in 2009 different. Slovenia not only felt the crisis, but had to deal with it. The main problem was that it was almost impossible to find the right recipe how to mitigate with crisis consequences. This problem occurred because since being part of the Euro, Slovenia from 2007 lost its monetary sovereignty and the possibility of issuing new money (quantitative easing), which could be one of the possible measures taken by monetary independent economy. Being in front of the wall and expecting that the crisis would not last (too) long, the government decided for borrowing some money on international markets and to spend it for the necessary needs. This caused a sort of debt-dependence in the next years. Slovenia's public debt increased sharply – from 21 % of GDP in 2008, to 80 % of GDP in 2014 (UMAR, 2015). The increase has been attributed to retaining the social welfare, while almost no fresh money was directed to productive investments. At the same time when the debt was increasing the enterprises shut down, people remained jobless and the climate in the country worsened. People were becoming more and more unsatisfied with the economic situation in the country, what caused a sort of political turmoil, where Slovenia in only three years changed three governments and went twice to early elections. Taking into consideration that Slovenia before 2011 never went to early elections and only in 2000 had a shift in the government (only for few months) it is possible to conclude that the economic imbalances caused an intensive and dramatic political instability. In late 2012 and in spring 2013 it was expected that Slovenia will not be able to mitigate its own economy and politics and that it will be on the list of Troika. However, this had not happened.

In 2014 Slovenia again had early elections, but now mostly because internal problems of the main political party, Pozitivna Slovenija. On that election a new party of Miro Cerar won and reached the unexpected 36 seats in the National Assembly. The economic politics was given in hands of Dušan Mramor, being a minister of finance already between 2002 and 2004, and at it seems, the decision for this was an adequate one. Even though Dušan Mramor is one of the "savers" (monetary speaking), it is a tough negotiator and it is (yet) able to hold back the appetites of other agents in the budget game. The analysts explain that this is possible because he has a full support of the prime minister, but some others emphasise that the prime minister is a sort of his prisoner, since nobody wants to deal with finance in the country, since the situation is far from being good. No matter what the reality is, as it seems from the current perspective, Slovenia is trying to repair some damages that were caused by the gradual (non)transition. Firstly, it aims to open its market to a larger privatisation and FDIs. Taking into consideration that Slovenia was understood as quite closed country, this can be perceived as a step forward. Secondly, Slovenia is lowering its public expenditures and holds back its public deficit. Thirdly, Slovenian enterprises started to understand that it is not enough to produce and sell at home, but to be effective you have to expand your activities worldwide. That is why the current crisis born the "born-global" enterprises and that can be judged as a positive consequence of the crisis. Nevertheless these positive impacts, Slovenian economy still lacks a strong entrepreneurial spirit and a stable state-supported framework, especially in the field of R&D, where the measures changes so frequently that the interested public cannot follow them (Bučar at all, 2010).

*Table 2 Slovenia and Montenegro: selected macroeconomic indicators*

| | **Slovenia** | **Montenegro** |
|---|---|---|
| GDP (2014, mil €, Eurostat) | 37,246.4 mil. € (18.100 p.c.) | 3.424.9 mil. € (5.510 p.c.) |
| GDP real growth 2015 (est.*) | 2.3 | 3.5* |
| GDP/PC in PPS; (EU=100), 2014 | 83 | 39 |
| Main Economic Activities (GVA %, 2013), UNstat data; | Agri-Forest (2%). | Agri-Forest (9.8%). |
| | Manufacturing (30%). | Manufacturing (13.8%). |
| | Construction (5%) | Construction (5%) |
| | Trade &Tourism (13%). | Trade &Tourism (22.3%). |
| | Transport (11%). Other (42%) | Transport (10%). Other (39%) |
| Public budget balance (% of BDP), 2014 | -4.9 | -1.3* |
| Public debt (% BDP) 2015 ; | 81.5 | 60.1 |
| Current account balance (% GDP), 2014 | 5.3 | -14.2 |
| Net FDI (%GDP), 2014;WB database; | 3.0 | 10.7 |
| FDI (% of Gross fixed capital formation/ GFCP), 2014;WIR 2015, UNCTAD, | 15.7 (GFCF in GDP in 2014 – 20.3%) | 55.1 (GFCP in GDP in 2014 – 10.8%) |
| Unemployment rate, 2014, LFS | 9.7 | 19.4 |
| GCI 2014-2015 (WEF) | Rank 70 (Score 4.2) | Rank 67 (score 4.2) |

*Sources: Eurostat, National statistical offices of Montenegro and Slovenia, World Bank database, UNstat database, UNCTAD WIR 2015, World Economic Forum, 2015; EC, DG ECFIN 2015;*

Breakdowns in global economic and financial system had significant influence on total business ambience in Montenegro – in conditions of small, open, "euro-ised" market-oriented, but insufficiently competitive economy. However, following the global financial and economic crisis, Montenegrin GDP contracted by 5.7% in 2009, grew by 2.5 % and 3.2 % in 2010 and 2011, respectively, contracted again by 2.5 % in 2012 and grew by 3.3 % in 2013, in each case in real terms. Having undertook certain, adequate ant-crisis measures in real and financial sector in the period 2008 – 2013, unfavourable effects have been mitigated and economic substance has been saved, which was precondition for process of gradual, though very slow recovery. The first data for 2014 show 1,5 % real growth and prognosis for 2015-2017 are on the level of 3,5-4 % (PER, 2015; 2-4). Current phase of Montenegrin transition is characterised by deep economic crisis and slow economic recovery that lasts up to today.

### 3.3 Lessons learned and challenges ahead

Slovenia:

1. In case of Slovenia, there are still some "black holes" in the transition process. However it should be an illusion expecting that a country can perform its transition in only 25 years.
2. Regarding the political transition it can be said that the EU accession process helped it, but it was too superficial. The political transition happens when culture change. For this a country need a generation or two and not some years.
3. The main problem of Slovenia still remains the economic performance, which is a (bad) combination of Austro-Hungarian and Balkan mentality. Some researchers (Udovič, 2014) explain "that Slovenia was too long in the Austrian monarchy to lose its mentality, but too short in the Balkans to adopt holistically their way-of-thinking. The consequence is that Slovenia combines both mentalities, which can lead to a devastative result". As said before, Slovenia should put more emphasis in promoting its economy, knowledge and competitiveness. Few steps in this direction have been done, but not enough.
4. A recommendation to Montenegro should be – EU and NATO membership are important foreign policy goals, but do not count on the EU that it will solve your problems. Slovenia learnt that earlier or later, you have to solve your (economic and transition) problems by yourself.

Montenegro:

1. In Montenegrin case, transition did not become easily European integration as in the CEE enlargement countries, but transitional recession from the '90ties has caused slow economic recovery, followed by the expansion of the service industry and industry lagging, large regional development gaps and social segmentation.
2. Low level of competitiveness of Montenegrin economy measured by most important global indexes (GCI, DB, and Freedom House) is represented by a constant trade deficit in goods, because of numerous developmental constraints, which could not be covered only by the growth of FDI. Dynamic liberalization, along with postponed European integration, in circumstances of an insufficient inflow of FDI, affected negatively competitiveness growth of Montenegrin economy, measured by export growth.
3. In the medium run, development model based on FDI cannot be replaced with the development model based on competitive export.

4. No matter which model will be prevalent, Montenegro needs stabile political situation as precondition for implementation of the national development policy.

Future economic cooperation:

1. Having in mind economic structures of both economies, there are a free room for strengthen future economic cooperation including trade and investment;
2. More than 100 Slovenian companies are present in Montenegro and investment are focused on financial services, trade, tourism and construction; New investment area is energy sector in Montenegro (building of small hydro-electric power plants and energy efficiency projects);
3. Joint economic cooperation commission is established in 2012 with focus on trade, agriculture, energy, tourism, environment and ICT. The Commission has regular meetings and can foster bilateral cooperation and national economic competitiveness;
4. Development aid agreement was signed in 2008 and Slovenian Government supported numerous development project in Montenegro amounted more than 6 mil. € in period 2008-2015 (project of social infrastructure, technical support, civil society support, local environment project, etc.);
5. Newly established economic diplomacy departments could support future economic cooperation; In addition, a very good cooperation is ongoing in the area of defence, internal affairs, foreign affairs (EU and NATO); such as in the area of health protection, labour and social affairs, education, research and science, and culture (MFAEI, 2015);

## 4. Conclusion

In 2004 Slovenia became member of EU and NATO, while Montenegro obtained the status of the EU candidate country in 2010 and open accession talk with the Union in 2012. Montenegro aspires to join NATO and the Allies are due to take a decision on its membership by the end of 2015 or in 2016. Accordingly, based on Slovenian experiences, as small Western Balkan state, Montenegrin foreign policy priorities are well defined (EU and NATO membership) and could support further political and economic reform.

Comparing to the relative successful political transition of both countries, the economic transition has been slower and more difficult. The inconsistencies in economic policy, slow transition towards the market economy, large state interventionism and the reluctance towards the necessary (economic and political) reforms impacted negatively the national competitiveness of Slovenia and Montenegro. This has become evident during the time of current economic crisis, which has displayed some knots and endemic errors of the economic transition in both countries.

Both states are small and open European economies that are why they are also more vulnerable to external shocks. However, economic openness next of being a threat can offer also lots of opportunities for small states, i. e. to be a niche player and a free rider. We argue in this paper that a strong collaboration between two small states on one hand increases advantages of the international market and national competitiveness, while on the other hand it minimises possible external turbulences and threats.

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