I Overview

Trieste, Italy and Koper, Slovenia lie within 30 kilometers of one another at the northern end of the Bay of Trieste where the Mediterranean Sea penetrates deepest into Europe. Despite the close proximity of the two cities they have been divided by constantly changing geopolitical boundaries since the beginning of the 20th century. These changing borders have resulted in large ethnic minorities in both countries; Italians in Koper and Slovenians in Trieste and the surrounding area. The metropolitan region is not well defined and there are few economic statistics that provide a view of the entire cross-border region. Each city is identified as part of a much larger region within its own country. On the Italian side, regional control lies with the regional governing body while in Slovenia regional decisions are made from the central government.

The two cities are also similar in that their economies rely heavily on their respective ports. These ports were developed in isolation and competition of one another during the period of the Cold War. Today, as Slovenia enters the European Union, interest in the area has peaked. The European Union has identified the Bay of Trieste as an important shipping node to service Southern and Central Europe. In preparation for Slovenia’s accession, resources have been directed towards uniting the ports and improving ground transport between the two cities. This united port system includes not only Koper and Trieste, but other port towns such as Rijeke, Croatia.
As a result of this shipping focus, economic activity is focused on the port regions of the cities. While current land transport connection between Trieste and Koper are minimal, further development of manufacturing, whole sale retail, and land transport are being oriented around the European transportation corridor V, which is currently in development. Other major economic sectors in the Trieste region include tourism, industry, construction, whole sale and retail trade, and brokerage, information technology, and research (Trieste Chamber of Commerce, 2001). On the Slovenian coast around Koper important economic sectors are commerce (trade), tourism, and fisheries (Vahtar, 2002). Fisheries are obviously located on the coast of both countries while tourism is focused both on the coast and in the city centers. Research, services and trade are also located primarily in the city centers.

The Trieste-Koper region has the unique opportunity to integrate economic development as a result of two large-scale initiatives. First, the Phare Cross-Border Cooperation (CBC) program was set up to improve cross-border economies and many initiatives have been set up in the Trieste-Koper region. Second, the European transportation corridor V is designed to include this area and so there is support for improved land transportation. These EU initiated projects are providing the infrastructure for large-scale economic growth. The other major opportunity lies in the unification of the port system in the northern end of the Bay of Trieste. Greater integration of the currently separate ports will lead to more efficient and productive shipping and hopefully greatly expand the markets for shipping in the region.

The most significant challenges for the Trieste-Koper region in developing the metropolitan economy are the centralized decision process of Slovenia and the lingering nationalist feelings and mistrust from both sides of the border. While Italy has a regional level of governmental decision-makers, Slovenia lacks a region-level government making the decision-making process for regional development much slower and more cumbersome on the Koper side of the border. The mistrust and nationalism accentuate these problems. Yet while these cultural challenges slow
the process of integration, they appear to be relics of the Cold War era that are slowly dissipating.

The greater Trieste-Koper metropolitan region does not have a single governing or business organization. Instead there are a number of projects initiated under the European Union’s Phare and Interreg programs. These projects focus on improving infrastructure, especially for transportation, between the two cities and building cross-border relationships between small and medium sized businesses. The unification of the ports is another response to the EU programming that is more dependent on local business and government initiative. Both cities are acknowledging the potential benefits of an integrated port and have taken cautious steps in that direction.

The central governments of Italy and Slovenia have contributed much to this development. Since the ports and coastal regions are of such great importance to the region, promotion of improved land transportation between the cities and unification the ports is an important role of the central governments. Protection of the coastal environment and well-planned land use will become increasingly important as the ports become more productive. The Slovenian government may better identify and deal with these issues through a governmental entity that acts on the regional level similar to that found on the Italian side. Finally the connections between the two cities and the surrounding regions can be improved through continued legislation that promotes a culture of acceptance and cooperation between the two cities.
II Geographic Characteristics and Administrative Structure

The Trieste, Italy and Koper, Slovenia cover 396 km\(^2\) in the Northeast corner of the Bay of Trieste, which is the point where the Mediterranean Sea penetrates deepest into the European continent. The region can also be described as the northern-most point of the west coast of the Istrian peninsula. This peninsula has been settled by Croats in the south and Slovenes in the north since the 6th century. The Trieste-Koper region was the point of interaction between Germanic, Roman, and Istrian people. Inside a 30 km radius, there are two land borders (Italy-Slovenia and Slovenia-Croatia) and three sea borders (between Italy, Slovenia, and Croatia).
This area has been contested and the geopolitical borders have changed a number of times. In fact Trieste has changed hands five times in the 20th century, going from Italian to Austro-Hungarian to German. At the end of WWII the city was occupied by US and British forces with plans to make it a free city. However it ended up back in the hands of Italy, much to the dismay of the many Slovenians in the area (Pozun, 2001). Soon after the war the iron curtain fell, creating a critical divide between the two cities and cutting off any commerce connections as well as connections between the large minority populations in each city with their respective homeland.

In 1911 nearly thirty percent of the Trieste population and almost 95% of the surrounding area was Slovene (Ibid). Today those numbers have decreased significantly with only a 20% Slovene minority in the region (Ibid). In contrast, the Italian population in Koper region has increased from about 2,200 in 1981 to 3,063 in 1991 (Pavlovic, 2000).

Despite the close proximity and mixed population of the two cities, there has been little interest in the broader regional economy until recently. There are few references to a Koper-Trieste region in official documents other than those from EU programs. There are also few statistics available (in English, at least) based on the cross-border region.

Italy has government structures at the central, regional, province, and municipal levels, which allows for planning on many different scales. The province of Trieste is the capital of the larger Friuli-Venezia Giulia region of Italy which covers 784 hectares (Friuli-Venezia Giulia Regional Government, no date\(^1\)). The province covers 211 sq km with a population of 247,000, 217,000 of which live in the city of Trieste (Trieste Chamber of Commerce, 2001).

---

\(^1\) Many of the resources for this report were websites which do not have a publishing date for their material. I have indicates the date accessed for each source in the bibliography.
Slovenia has only two levels of government, state and municipal. The country has been broken into statistical regions but there is no governmental or planning body associated with this break-down. Koper is part of the Obalno-kraska statistical region along with the towns of Izola, Piran, and Sezana. The municipality of Koper covers 307 sq. km which includes more than 100 villages and hamlets totaling a population over 48,000 (www.eucbasket-koper.org, no date). The town of Koper is actually much smaller with 30,000 inhabitants (Ibid).

### III What Drives the Metropolitan economy?

The main economic interests of the Trieste-Koper economy are shipping and tourism. While shipping is not a line item on either city’s financial sheets, it makes up the bulk of service and retail and wholesale trade. Koper is the fifth largest town in Slovenia yet it has the second highest GDP per capita after the capital of Ljubljana (www.eucbasket-koper.org, no date). In Koper’s statistical region population growth has been basically stagnant since the early 1990’s and the employment rate has risen since 1997 (European Environment Information and Observation Network, 1999). Compared to Slovenia as a whole, the coastal region has had run slightly higher in both population growth and employment rate, which is currently at 89.9% (Ibid).

Unlike Koper, Trieste is not its country’s largest port. The port of Genoa exceeds Trieste in tonnage and traffic. In fact, until the fall of the Iron Curtain, Trieste was viewed more as a dead end of Western Europe. The employment rate in the Friuli-Venezia Giulia (FVG) region is at 45%, which is high compared to the
Italian average of 41.8% while the unemployment rate of the region (5.8%) is much lower than the national average (12.3%)\(^2\) (Friuli-Venezia Giulia Regional Government, 2). According to 1996 data, The FVG region contributed 1.9% of Italy’s GDP with an added value per inhabitant of 37.5 million lire, above the national average of 33 million (Ibid).

**A. How is the metropolitan economy evolving?**

**B. What are the key industry clusters in the metropolitan region?**

As with other information on Trieste-Koper region, industry clusters are not listed together but are separate for each side of the border. However, there are a few common interests, specifically in trade and services based on shipping and tourism.

**Shipping**

The strongest common interest between the two cities is that of the ports and shipping. “The most important port of Friuli-Venezia Giulia is Trieste which, when it was the only commercial seaport in the Austro-Hungarian Empire, became the driving force of the city economy. Today the port of Trieste, mainly handling foreign goods, is connected with all the major ports of the Mediterranean basin, Africa, America, Australia, the Gulf, India and the Far East. The only free port in the Mediterranean Sea, the port of Trieste is divided into five separate free zones, three of which are for commercial activities (Old Free Zone, New Free Zone and the Timber Yard) and two for industry (Mineral Oil Free Zone and the Free port of the Zaule Channel). The port of Trieste (covering 2,304,000 square meters, of which 1,765,000 is Free Zones, over 12 Km of quays with 47 operational berths, almost a

\(^2\) Note that this number looks much lower than from the Koper region. No information was available as to how these numbers were calculated and it is assumed that they used different methods. Most likely the Slovenian percentages are based on the total working-age population while the Trieste percentages are based on a real total population. Evidence of this is that the reported unemployment rate in Koper was 10.1%. Adding this to the 89.9% employment rate makes a 100% population. In contrast, the unemployment (5.8%) and employment (45%) percentages for Trieste add up to 50.8%.
million square meters of warehouses and storage areas, half a million covered - a record in Italy) can load, unload, store, sell and re-export goods without any customs limitation.” (Friuli-Venezia Giulia Regional Government, 2) In 1998 47,432,430 tons of goods, of which over 36 million tons was oil and its derivatives, passed through the port of Trieste (Ibid). Thanks to the large amount of oil passing through Trieste, this port claims 76% of the Northern Adriatic ports total traffic (CEEBICnet, no date).

By contrast, the Koper port is much smaller. In 2003, Koper transshipped a record 10 million tons of cargo (Slovene Press Agency, 2000), which is only a quarter of the amount in Trieste. However, the port of Koper has shown consistently high growth in volume over the last ten years (Integrated Coastal Management- Slovenia, no date). Furthermore, the modern equipment and spatial capacity of the Koper port give it greater development opportunities than Trieste and Rijeka (Ibid). While it does not match the size of Trieste, Koper runs much closer to capacity than Trieste. The strength of Koper’s port system is evident in the concession of Trieste’s pier number seven to Trieste International Container Terminal, 49% of which is owned by the port of Koper (Pozun, 2001).

While Rijeka, Croatia lies outside of the metropolitan region in most respects, it is considered an important part of the port system. Rijeka is much smaller than either of the other two ports. In 2002 traffic was registered at just over one million tons and it is shipping less than 50% of its levels prior to the outbreak of war in the region during the early 1990s (CEEBICnet, no date). However there are signs of improvement in that Rijeka has been granted a $156 million loan from the World Bank in 2003 to improve the port because it is the only port of these three that can handle deep-water vessels (World Bank, 2003).

Tourism

3 Northern Adriatic Port Area Network (NAPAN) includes Trieste, Italy, Koper, Slovenia, and Rijeka, Croatia. It does not include Genoa, Italy and so while the percent of Trieste traffic is the highest in NAPAN, it is not the highest of all the Adriatic ports.
Tourism is another shared economic interest between the cities. Trieste and the FVG region are popular with German tourists. In 1999 Trieste had just under 3,700 tourist beds and 1448 Hotel and restaurant establishments.

Koper and the surrounding coastal area of Slovenia are attracting more and more tourists due to the low costs and improved accessibility since the fall of communism. The area has 21,000 tourist beds, which amounts to 27% of Slovenia’s tourist capacity (Vahtar, 2002).

**Trade- Whole and Retail**

As can be seen from tables 2 and 3 below, Trade is a major economic sector in both cities. There are surprisingly few detailed statistics on this sector. However it is clear that there are a large number of trade businesses in both Trieste and Koper. This sector is inflated as a result of the ports and trade is directly affected by port traffic as evidenced in an example of the largest coffee trader in Trieste. In an article from Central European Review (Pozun, 2001) Riccardo Illy, owner of the major coffee roasting plant in Trieste points out that as shipping traffic has dropped since the 1950s, so has his coffee trade.

**Other sectors**

Economic data (in English) is sparse on other sectors. From the tables below it is clear that trade and tourism are important in both cities. Other important sectors include construction, industrial and manufacturing, and service industry. Construction figures probably are a result of EU programs designed to improve infrastructure and stimulate economy, which requires building of new roads, rails, port facilities and the increased demand for housing and office space. Manufacturing and services are most likely also linked to the importance of ports and transportation industries.
### Table 2 From [http://www.ts.camcom.it/english/tsincifre.htm](http://www.ts.camcom.it/english/tsincifre.htm)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Slovenia</th>
<th>Obalno-kraska</th>
<th>Koper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry</td>
<td>1786</td>
<td>98</td>
<td>39</td>
</tr>
<tr>
<td>Fishing</td>
<td>147</td>
<td>34</td>
<td>16</td>
</tr>
<tr>
<td>Mining</td>
<td>160</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20867</td>
<td>1086</td>
<td>452</td>
</tr>
<tr>
<td>Utilities</td>
<td>343</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Construction</td>
<td>13491</td>
<td>967</td>
<td>463</td>
</tr>
<tr>
<td>Wholesale retail</td>
<td>29289</td>
<td>1864</td>
<td>915</td>
</tr>
<tr>
<td>Hotel, restaurant</td>
<td>8510</td>
<td>1162</td>
<td>272</td>
</tr>
<tr>
<td>Transport, storage, communication</td>
<td>10370</td>
<td>720</td>
<td>378</td>
</tr>
<tr>
<td>Financial</td>
<td>1060</td>
<td>66</td>
<td>40</td>
</tr>
<tr>
<td>Real Estate</td>
<td>20269</td>
<td>1433</td>
<td>733</td>
</tr>
<tr>
<td>Public Admin</td>
<td>3102</td>
<td>129</td>
<td>53</td>
</tr>
<tr>
<td>Education</td>
<td>1875</td>
<td>93</td>
<td>45</td>
</tr>
<tr>
<td>Health and social work</td>
<td>2995</td>
<td>188</td>
<td>81</td>
</tr>
<tr>
<td>other social and personal services</td>
<td>27290</td>
<td>1637</td>
<td>782</td>
</tr>
<tr>
<td>Unknown</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>141559</td>
<td>9497</td>
<td>4272</td>
</tr>
</tbody>
</table>


**C. Where is economic activity located across the metropolitan region?**

Clearly the focus on the ports and transportation determine the physical location of the economy to a large extent. Both city centers are located near the ports. Tourism in both cities also focuses on the coastal areas. Over time these cities have begun to sprawl, especially in the last 20 years in Koper, where home ownership is on the rise. The population is spreading to suburban areas away from the shoreline and towards the hinterland. Still most of the economic activity of all
sectors is located near the city centers and the water. Value added services oriented around transportation also tend to huddle around major rail and highway access points.

IV What is the Metropolitan Region’s Economic Strategy?

The metropolitan economic strategy for the Trieste-Koper region is defined by its geographic location as a state border region and a coastal area reliant on shipping and transport. Both the opportunities and challenges are derived from this location and the economic strategy has evolved from a larger European interest in this region.

A. What economic development opportunities and challenges is the region facing?

The greatest opportunities presented to the Trieste-Koper region are a result of a greater European interest in the area due first to its strategic location as a port that can serve Central and Southern Europe and second as the border area of a nation acceding to the European Union. A number of programs have been initiated from the EU level to promote economic development in the region and these programs have spawned many local initiatives. Here are the more important organizations and programs that have provided the funds and resources for economic development:

**Phare program**

The Phare program is one of three pre-accession instruments set up by the European Union to assist applicant countries from Central and Eastern Europe in their application to the EU. It has three main objectives:

1. Strengthening public administrations and institutions to function effectively inside the European Union.
2. Promoting convergence with the European Union’s extensive legislation (the acquis communautaire) and reduce the need for transition periods.
3. Promoting Economic and Social Cohesion.
One Phare program has provided funding for the Trieste-Koper region. Phare Cross-Border Cooperation (CBC) was implemented in 1994 on the Italian-Slovene border, providing 3.7 million Euros to 180 projects run by non-profit organizations. The goal is to help eliminate developmental obstacles resulting from state borders and take advantage of cross-border cooperation that may already exist.

The Small Projects Fund is one aspect of the Phare-CBC program that provides resources for small (10-50,000 Euros) projects in the Western Slovenian region, to initiate cross-border cultural and economic ties. They will provide up to 75% of a project's funding, requiring that the rest be collected from local sources. This program has contributed over 2 million Euros as of 2002 (Europa, no date).

**Interreg Community Initiative**

Interreg is a three phase program implemented in 1990 with the same goals of preventing national borders from inhibiting balanced development. However this initiative came from the Structural Funds of the European Commission. It is set up to run through 2006 for Central European countries and is run jointly with the Phare program.

**Koper- Regional Development Center (Koper-RCC)**

Set-up through the cooperation of the Municipality of Koper, Employment Center Koper, and the Chamber of Commerce Koper, Koper-RCC aims to promote business and economic development in the greater-Koper region including the municipalities of Divača, Hrpelje-Kozina, Ilirska Bistrica, Izola, Komen, Koper, Piran and Sežana. This is the closest thing Slovenia has to a regional level of economic decision-making though it is not an official government office. Koper-RCC promotes and implements cross-border projects with Italy and Croatia.

**The HiCo Project and BORZA**

Two local initiatives to promote cross-border economic development and business partnerships are HiCo and BORZA. The HiCo project is promoted mainly by the AREA science park in Trieste, which is one of the regions largest high technology industry parks. HiCo (High Tech Corridor) was set up to promote the
development of the area between the FVG region in Italy and western Slovenia through convergence of industry with science and technology research and development.

BORZA is the Business Opportunities Exchange System designed to link Slovenian businesses with foreign partners, focusing on Italy. This online database of Slovenian companies is a simple idea that may prove to be an important first step in establishing foreign connections with small and medium size Slovenian businesses.

**North Adriatic Port Area Network (NAPAN)**

Northern Adriatic Ports Area Network (NAPAN) is an organization established at the international Conference “EU and Cross-border Regional Cooperation: the Northern Adriatic Ports of Trieste, Koper and Rijeka” (Portoroz/Portorose, Slovenia - September 1998) with the aim to implement the cross-border economic cooperation in North Adriatic area, specifically dealing with transport infrastructure and cooperation between ports.

Overall, these programs and the increased interest in funding regional economic strategy and support of a unified port system from the EU level provide a unique opportunity for the Trieste-Koper region to improve and expand the concept of a regional economy.

However, the multiple states required for consensus in regional decisions are a challenge to implementing these programs successfully. There is a saying in Slovenia that “in cooperation, even the dog dies!” (OECD, 2002) Despite the efforts of both nations to create legislation to protect the minorities from its neighboring country, feelings of nationalism and mistrust in the capitalist system from the Slovenian side combined with nationalism and concern over protecting jobs and culture on the Italian side of the border have slowed progress of cross-border initiatives. Jeremy Faro (Faro, 2003) argues that efforts to unify the region and the port system have failed totally because decision-makers do not recognize this problem. His report goes into great detail about the failings of these programs and the public opinion regarding them. However, I would argue that while these attitudes slow progress, the direction towards a more unified region on land and
sea has gained momentum and these feelings are beginning to fade as more projects are implemented.

Another major challenge is Slovenia’s lack of a regional governing entity. While Italy has governance structures at the regional and provincial levels (and Trieste is the capital of both its province and region), Slovenia has only state and municipal governments. Municipal governments lack the power to make regional planning decisions and as a result cross-border as well as intra-state regional decisions are slowed by the central state bureaucracy.

B. What are the main goals of the metropolitan economic strategy?

Most of the goals of the metropolitan economic strategy are adopted through the implementation EU sponsored projects. As a result, the goals are coming from the EU instead of local policy-makers and economic organizations. These goals are to improve the social and economic networks in the region, improve transportation infrastructure to unify the ports into a single system and improve land connections to the expanding European Transportation Corridor V\(^4\), and to develop a regional decision-making body for the Trieste-Koper region.

Trieste has focused on initiating a high-tech corridor via the HiCo project and aims to create a strong high tech industry that can take advantage of the scientific knowledge of the universities and technology businesses in Trieste as well as the highly skilled and relatively inexpensive labor force of the Koper region.

Among Slovenian development priorities for 2003 and 2004 are (Israel Government, 2002):

- Development of the information society (modernization of software and hardware, IT systems solutions for public sectors). The HiCo project and BORZA are initial steps in this direction.
- Further development of economic infrastructure (EU supported tenders for roads construction, water-supply and pipelines building). While unification

\(^4\) This corridor is part of a large transportation system being developed across Europe. Corridor V (5) includes highway and rail, runs from Venice to Budapest (and then on to Slovakia, Ukraine, and Bosnia-Herzegovina), and is 1,600 km in length. More info available at http://www1.oecd.org/cem/topics/paneurop/corridors.htm
and upgrading of the ports are essential to all economic activity, improved rail and highway connections as well as water and sewer infrastructure is also important.

- Privatization (telecommunications, postal services, electrical energy, banking and insurance sectors). Slovenia has already moved toward privatization of the shipping industry. Currently 49% of the Port of Koper is privately owned and the goal is to expand this to other services and industry.

V What Can the Central Government Do to Support the Metropolitan Economic Strategy?

While the EU initiatives such as Phare and Interreg provide a great opportunity for improving the regional economy, it is the national governments that will play an important role in using the instruments of the EU to make the regional economy a success. The central governments of both Trieste and Koper, as well as the central governments of their respective countries can promote the regional economy in the following ways.

Promote regional governance structures

Especially in the case of Slovenia, an organizational structure at the regional level that is empowered to make planning decisions that affect the regional area is essential for a responsive and flexible economic strategy. The Koper-RDC is a step in this direction. However this organization does not have a force of law that is necessary for large scale project implementation.

Promote Privatization of Industry

Since the increased private ownership of the Port of Koper the port has run more efficiently, especially compared to Rijeka’s port where traffic is falling and government ownership is 80% of the port. While privatization is not a golden key that will work in every setting, there are areas of the economy that could benefit from privatization such as telecommunications, transportation, and services (insurance, real-estate, finance).
**Improve Infrastructure**

While businesses may run more efficiently as private entities, a strong economy depends on good infrastructure. Koper is in need of an improved water and sewer system. Roads and rail are not sufficient or suitable for the amount of traffic that a large, integrated port system requires. These problems are being addressed. There have even been private partnerships that have built small sections of rail. In order to support the transportation economy that is emerging, it is critical that the central government creates and maintains the infrastructure necessary to sustain that economic growth.

Along these same lines, the EU initiatives stress the importance of environmental conservation. The coastline is a fragile ecosystem that requires special care, especially during periods of rapid development. For this reason, 45% of all the EU funding has gone towards environmental issues.
Bibliography


Info on Croatian port cities


Slovenian employment rates


Population stats on FVG region


Transport and port activity in Koper

Lack of culture of cooperation in Slovenia

Italian minority in Slovenia

Report on Port of Koper leasing Trieste pier

population statistics on immigrants in Trieste and Koper


Info on Interreg Community Initiative

Info on Interreg III Community Initiative


Port of Koper info

Italy-Slovenia relations


Section 1.2 has socioeconomic data for region


Koper is the fifth largest town in Slovenia and the second by the GDP per capita.