

EMIGRATION AND FOREIGN DIRECT INVESTMENTS: LINKS AND IMPACT ON THE BULGARIAN ECONOMY

Object of the study are international migration and FDI, as the main phenomena of the globalization of economic relations. Another aspect is tracking the link, established in recent years, about the relationship between international migration and FDI, as a consequence of the evolution of the concept of the international movement of factors of production. In connection with these conceptual aspects, attempts were done to establish whether there are some connections between the growth of Bulgarian emigration and the formation of the Bulgarian diaspora abroad and the FDI inflows in the country. In particular, in the first section some details were given about the increase of Bulgarian emigration. In the second section some concrete conclusions have been drawn about the impact of FDI on macroeconomic development in Bulgaria. In the third section some possible links between migration and FDI were developed, arguing that some effects of "complementarities" can be established. The fourth section is devoted to the main potential benefit for the Bulgarian economy by the increase in remittances from Bulgarian emigrants to relatives remaining at home. Conclusions were made as well as on the relationship between migration and Bulgarian FDI and the effects on macroeconomic development and the prospects of evolution and the benefits of FDI and remittances like an external financial inflows.

JEL: F21; F22; F24

1. Introduction

In economic literature international migration and FDI are the two much most important phenomena of the globalization and reveal the changes in international factor mobility theory and practice. For a long time, international factor movements have been accepted like a substitute for trade. For example, the international migration of labour has been considered as similar in its causes and effects to international trade based on differences on resources.

Labour moves from countries where it is abundant to countries where it is scarce. This movement raises total world output and generates income effects. International

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borrowing and lending also has been viewed as a kind of international trade. It is trade of present consumption for future consumption and the relative price of this intertemporal trade is the real rate of interest. When factors (labour and capital) are immobile between countries, free trade of goods will tend to equalize factor prices and there are no incentives for factors to move outside the countries, as it was postulated by R. Mundell's approach.

Traditionally, most workers remain in their country of national origin due to immigration restrictions, while capital controls have in some periods restricted international movements of capital. Income redistribution is likely to change over time in response to any shock to the system as a movement towards trade liberalization or free trade. Trade and factors movements are efficient and beneficial at least as long as some form of redistribution of income takes place. International factor mobility serves as a substitute for trade in some other sense in Heckscher-Ohlin-Samuelson model (H-O-S model), since an increase in the volume of factor movements can decrease the volume of trade. Subsequent development has demonstrated that models diverge from the standard H-O-S assumption and they result in complementary rather than substitutability between factor trade and goods trade.

The new international trade theory postulates the effects of market imperfections and product differentiation. Capital mobility and the different forms of capital transfer at international level do the difference. On the whole, factor movements are subject to more restrictions than the international trade, limits and barriers to trade between countries, transport costs, differences in technologies across countries, differences in the productivity of capital and labour.

The distortion of factor market structure induce inequalities between countries. This movement raises total world output and generates income distribution effects which under the conditions of imperfect market arise income inequalities. In fact real wages in different countries which are diverging in a short and even medium term because of the disturbed factor market structure will tend to equalize in the long run if the law of the one price is not violated too. The speculative movements of capital between countries in search of higher return of capital are modifying the trend of the capital markets and create real interest rate differentials.

The analysis of the relationship between FDI and migration flows has been growing in the last years, although the number of contributions is still relatively limited. The discussion is held how this is related to the standard analysis of factor mobility of Heckscher Ohlin trade theory. Most contributions look at whether these flows are substitute or complements for a given location (country, province, region etc.) or pair of locations. The research of international trade with heterogeneous firms has been expanded with the link between FDI and migration at the firm level.

FDI and international migration are two important phenomena in the recent history of Bulgarian economic development and this article aims to reveal if there is a relationship between them. To what extent FDIs have an impact on Bulgarian economy and if FDI entries contribute for the limitation of Bulgarian emigration. If

there is evidence that Bulgarian migrants have been tempted to invest or to stimulate foreign investors to settle in their native country and how the conception of complementary or substitutability can be proved? Also how the counterpart of the Bulgarian migration process – the remittances helped to compensate the financial gap of Bulgarian households.

In the first part, a brief overview on Bulgarian integration to international migration process is presented. In the second part, some issues on FDI impact on Bulgarian economy have been revealed and whether there is a link between FDI and emigration in the Bulgarian case. The third part shows how remittances help for the overcome of economic and social problems of the Bulgarian households.

2. Inclusion of Bulgaria in the International Migration Process

The main reason for the increase of Bulgarian migration since the beginning of the 90s of the XX century is the political, economic and social instability in the country during the years of transition to market economy. The political perturbations provoked a sluggish economy with low or negative rate of GDP growth, high inflation, low wages, deterioration of external trade and an overall bad prospective for further development. However, the decision for emigration is much more complicated and depends also of other different personal reasons.

According the census of 1992 and 2001, 196 000 people expatriated and only 19 000 returned back to Bulgaria.² In the period 1992 – 2001, around 22 000 people have left Bulgaria yearly. Recent data from National Statistical Institute (NSI) are showing that the emigration process is ongoing and in 2007-2009, 24 109 people have emigrated from the country. In comparison with 2007, 15.35 % more Bulgarians left the country in 2009. Expatriated women exceeded by 7.07 % the number of expatriated men. (Table 1). According the census of 2011 for the period 2001-2011 the decrease of the population amount to 581 750 people or 7.91 % of the total population, by subtracting the natural growth, it appears that the population was reduced with 192 663 people (2.62 % of the population). We can presume that a significant proportion of those people actually have left the country.

Table 1

External Migration by Sex, number in 2007-2009*

	Total			Men			Women		
	Settled**	Emigrated**	Changes	Settled	Emigrated	Changes	Settled	Emigrated	Changes
2007	1561	2958	-1397	877	1119	-242	684	1839	-1155
2008	1236	2112	-876	674	766	-92	562	1346	-784
2009	3310	19039	-15729	1921	8353	-6432	1389	10868	-9297

* Include only persons who have declared before the administrative authorities to change the current address for abroad the country, NSI.

** Settled in the country, Emigrated from the country.

² Kalchev, Y. Census of Population, Housing Sector and Rural Entities (farms) in 2001, vol. 6 Sample studies, book 3 Territorial Mobility of Population, NSI, 2002.

Those data are not complete because no statistics are available about emigrants who left the country in various informal ways. According to unofficial data and without taking into account the old Bulgarian emigration, since the beginning of transition to market reform, the Bulgarian Diaspora is estimated at 1.2 million people or 15.8% of the population (2008).

In the early 90's, the first major group of Bulgarian emigrants headed to Germany, the U.S.A and to Canada. The desire for emigration to the USA continues to prevail even now in the mind of young Bulgarian families. USA remains preferred destination for highly skilled professionals because of the easy integration in a society built by immigrants, accessible programs for social inclusion, training opportunities and professional development and higher salaries.³

Attractive destinations for Bulgarian migrants were also Western European countries, but the objective of the authorities of several EU countries was to limit the stay of foreign workers in their countries in the early years of the Bulgarian emigration. The core of main European migrants policies was the adoption of the principle of rotation. After the prescribed period of stay for working, the foreign workers should return to their countries of origin and their jobs are occupied by others. However, the real life proved to be different. Since the early 60's more and more foreign workers haven't left their work and remained for years, living in their host countries. This practice served the interests of employers who prefer to retain professionally trained workers.

Bulgarian migrants prefer to settle and live in well organized state, attracted by the higher wages in the developed countries of Europe in comparison with those in their home countries, the good prospects for increasing incomes, the benefits of good social policy. The healthcare, the education for children, the better infrastructure and the possibilities for good professional realization are fundamentals and permanent factors that determine the willing of a growing number of Bulgarians together with their families to stay and work in the developed Western part of Europe. Moreover, another advantage is the proximity of the countries of Western Europe to Bulgaria.

One of the main attractive destinations for skilled Bulgarian migrants remains Germany.⁴ In 1999-2007, Bulgarian immigrants in Germany amount to 46,818 people. For the same period, the absolute number of Bulgarian citizens living in Germany increased to 69.18%. Bulgarian students in Germany represent 2.0% of all the students in Germany (2007). In the years 2001-2003 Bulgarian students amounted to over 5% of all students in Germany. After the graduation, Bulgarian students rarely return back to Bulgaria and prefer to find jobs in Germany, somewhere in Europe or the U.S.A.

³ National Strategy of RBulgaria on migration and integration, 2008-2015, p.5. Other data.

⁴ I. Christova-Balkanska, P. Naidenova, Case Study on Bulgarian immigration to Germany, In: Sustainable Development and Diversity in Bulgaria, Collected Papers, Ikopis, Sofia, 2010. p. 133-165.

Other destination for skilled Bulgarians in their will to find a better life and professional realization is to settle in USA. According to official data, Bulgarians in USA are nearly 95 000 (2008). More than half of Bulgarian immigrants in USA have a bachelor's degree. With the illegal immigration, the number of Bulgarian migrants in USA increases to 200,000. people. The level of education shows that Bulgarian migrants are qualified to work fairly well, and most of the low qualified workers also succeed to integrate the USA labour market. This determines the fact that many Bulgarians do not think to return back to Bulgaria (Table 2) .

Table 2

Number of Bulgarian Immigrants by Country for 2008	
Germany	Over 50 000
Austria –	Around 25 000
Czech Republic	Around 10 000
Italy	Around 50 000
Slovakia	Around 3 000
Hungary	Around 5 000
Belgium	Around 4 000
Greece	Around 110 000 ⁵
United Kingdom	Over 60 000
Sweden	Around 2 000
France	Over 15 000
Portugal	Around 10 000
Spain	Around 166 000
USA	Non-official 200 000 Official 95 000 (2008)
Canada	Around 45 000
South Africa	15-20 000
Australia	15-20 000

Source: National Strategy of R. of Bulgaria on migration and integration, 2008-2015, p.5. Other sources.

After the accession of Bulgaria to the EU (2007), the shape, the trends, the preferred destinations of Bulgarian migration have changed. From permanent emigration, which prevailed in the past years, Bulgarian emigration became more seasonal and temporary. Unlike earlier periods, when the Bulgarian labour migration headed to Germany and the U.S.A in the years after 2000, significant number of relatively less skilled workforce from Bulgaria goes to Spain, Greece, Portugal, where workers were sought in economic sectors like construction, agriculture, household activities and other relatively low-skilled jobs. However, for many people the temporary stay, with the purpose to earn money for a fixed period of time, turned to be permanent. According to a report of V.Mintchev et al. (2003), relaying on two sociological surveys, “during the two years period (2001-2003) a trend is observed, although insufficiently clear-cut, towards a decline of settlers in favor of those, who prefer a temporary stay abroad”.

⁵ According to some data, the number of Bulgarians residing long in Greece is estimated at about 200 000 people as 35-40% of them residing in Thessaloniki in Northern Greece.

Data from Table 2 show this trend. The mobility of low-skilled Bulgarian workforce and the increase of Bulgarian migrants in the countries of South Europe have been facilitated by the removal of Bulgaria from the "Schengen" list. The growth rate of less educated workers from Bulgaria amounted to 5.8% of the total number of Bulgarian emigrants. According to World Bank the main destinations for Bulgarian migration are now Spain, Germany, Greece, Italy, Great Britain and the USA.⁶

In general, according to World Bank data Bulgaria is among the ten countries in the region of Eastern Europe and Central Asia with the highest number of highly qualified emigrants - 8.6% of the population. Now a high number of highly educated medicine staff (doctors and nurses) is leaving Bulgaria. Factors, that stimulate the continuing emigration of highly educated people are associated with the low level of wages, the remaining uncertainties about their future professional and personal life and the overall fall in the level of education, healthcare and other social utilities.

The main relevant incentives for skilled and low-skilled Bulgarians to migrate consist of higher living standards and the resolve of material, financial, professional problems.

In the years after 2000, the economic situation in Bulgaria slightly ameliorates with the appearance of a real growth in the GDP and after 2004 it increases up to 6%. The inflation's controlling allows stabilization of consumption, incomes and investments. Unemployment has remained at an affordable level, and the government budget since 2002, ended the year with a surplus that allowed not to impair the integrity of the fiscal reserve at the BNB. (Table 3) The stabilization of the macroeconomic situation in Bulgaria, to some extent, reduces the rate of emigration and the attitude towards emigration.

Table 3

Macroeconomic Performance of Bulgaria

	2004	2005	2006	2007	2008	2009	2010	2011
Growth in real GDP (%)	6.66	6.2	6.5	6.4	6.2	-4.9	-0.8	1.7
Inflation (in %)*	0.1	5	7.3	8.4	12.3	2.6	3	5.1(Q1)
Unemployment (%)	12.2	10.7	9.1	6.9	6.3	9.1	9.2	12.6 (Q1)
Index of ind. Production (%) **	12.9	6.9	6	9.6	0.7	-18.3	2.1	15.1(Q1)
Cash deficit/surplus, % of GDP	1.7	3.1	3.4	3.3	2.9	-0.9	-0.8	-1.0

* Inflation, y/y change

** Index of industrial production, y/y change

Source: National Statistics Institute (NSI), Bulgarian National Bank (BNB).

The global financial and economic crises seriously have affected the economic and social life in Bulgaria. The deterioration of the business climate and the drop in the index of industrial production reverse the prospective for further positive development and amelioration of every day life. As it can be seen from Table 3 between 2008 and 2009 the decline in the real GDP amounted to about 12%, the

⁶ World Bank, Development Prospects Group, 2008, Migration and Remittances Factbook, www.worldbank.org

industrial production fell to nearly 20%. An annual decline has been posted, given that a deficit in the budget appears for the first time since 2002.

Bulgaria, along with Romania, has the lowest, among the EU-27 countries level of GDP per capita, (calculated on the basis of the purchasing power parity), which is between 50 and 60% less than the average level of EU countries. In the period 2005-2009 years the poverty line gradually grows out despite the increase of social state assistances. Persons at risk to fall into poverty, after the receipt of social assistance, increased from 14 to 21.8% of the total population for the period 2000-2009.

Despite standards of living in EU15 have improved significantly over the past decade, based on the PPS, which makes international comparisons possible, EU standards of living significantly varies. In 2009, the GDP per inhabitant in Luxembourg, expressed in PPS (purchasing power standards) was more than two and a half times the EU27 average. Netherlands registered a level more than 30% above the average. New member states (2004) – Slovenia, Czech Republic, Slovakia, were between 10 and 30% lower than the EU27 average. Hungary, Estonia, Poland, Lithuania, Latvia were between 30 and 50% lower, while Bulgaria and Romania were between 50 and 60% below the EU27 average.⁷ The EU is striving to narrow the gap between its rich and poor members, strengthen the European economy, make it more competitive and create more jobs, however Bulgarian skilled migrants (among the others) are keen to enjoy a better quality of life, not expecting the catching up process to be successful in the nearest future.

In 2009, Bulgaria is the poorest countries of EU 27, with the lowest real household income per capita, recorded income 60% below the EU average. The group of 9 EU countries with low real household income per capita cover about one fifth of EU population with income per capita 55% below the EU average.⁸

The deep economic crisis (end 2008) and the consequent increase in unemployment enhance the attitudes towards emigration. The main factors influencing emigration relate to future concerns about the everyday life because many workers were fired from their jobs. The further impoverishment of the population and the lack of prospective lead to finding ways to survive and one of them are through emigration.

Other factors stem from the comparisons of wages levels in Bulgaria relative to that in developed countries. The professional skilled and educated people sought mainly to increase the purchasing power of the received remuneration for their work, suggesting that in Bulgaria there is always a danger of inflation tendencies. The limited number of well-paid jobs also acts as a pushing out factor and increases the attitudes of young people to emigration

Referring to the theory, the ongoing trend of Bulgarian migration allows drawing some possible direct or indirect relationship and evidences between migration and

⁷ Eurostat, Newsrelease, 195/2010, 15.12.2010.

⁸ 9 poor EU countries – Bulgaria, Romania, Latvia, Poland, Estonia, Hungary, Lithuania, Slovakia, Czech Republic. Eurostat, Statistics in focus, 16/2011.

FDI. After 1990, the structure of the Bulgarian emigration is very heterogeneous in nature, but the highly educated persons, who are well integrated into the socio-economic and life of the host country and have a well-paid job perhaps, will be tempted by the experience to invest in their home country.

The Bulgarian migrants in Europe dispose with the necessary knowledge for the country cultural and traditional particularities of their native country and are aware about the size of the market. Nevertheless, Bulgarian migrants settled in other EU countries have more opportunities for contacts with partners from their home country. This allows supposing that some migrants may decide to start a business back home or to facilitate the entry of foreign investors from the host country in its efforts to shift production or services their home country. The geographical proximity is positively related to both FDI and migration flows and it is possible to find some relationship of complementarities, particularly between FDI and skilled migration. Is there any evidence that the growth of Bulgarian emigration leads to an increase in FDI inflows in Bulgaria, supposing that skilled Bulgarian migrants are tempted to start additional business and increase job opportunities and career in Bulgaria? The answer may be sought if we analyse the impact of inward FDI on the Bulgarian economy. Are there any possibilities to influence favorably the limitation of brain drain leakage by attracting FDI?

3. The Role and Impact of International Factor Mobility on Bulgaria. Is There a Correlation between Capital Inflows and Outflows of Workers Abroad?

3.1. Foreign direct investments – a way of overcoming the shortage of financing and a tool for macroeconomic stabilisation

Attracting FDI is very important for the Bulgarian economy. FDI's arise mainly when multinational firm creates or expands a subsidiary in the host country. The FDI inflows result in setting up and/or developing new industries or other activities, being of benefit to the economy of the host country. The FDI enable the transfer of new knowledge and technologies, jobs opportunities and staff qualification.

The impact of foreign branches on the behavior of local firms is expressed through direct and indirect effects (spillovers). They influence on local industries and change the economic environment in the host country. The impact of FDI can be horizontal and vertical. FDI at horizontal level means when they are spread in depth at inter-production level. The vertical FDI reflect their spread in two different productions.

The connection between the foreign and local company is important for the technology transfer and the labor production. The new technological development of the host country pave the way for approving of the intra-industry linkages and increase the knowledge in economic sectors and may help to create more diversified export-oriented structure.

FDI can assist in helping countries with shortage of capital to build up their own research and development bases that can bring in new technologies. This is a very

crucial contribution as most of the countries are not able to perform these functions of their own. These impacts are important especially in the context of manufacturing and processing industries and services of the host country. FDI influence on the qualification of the labor force. The activities of MNCs and FDI have an important impact on population's standard of living in the host country and socio-economic development.

At macroeconomic level, FDI help to finance the deficit of the current account of the balance of payment. It is important to overcome the shortage of finance for the economy in order to provide a macroeconomic stability, to ensure an additional funding for the increase of investments, economic growth and employment. All these issues are closely related with diversity of countries' economic restructuring and diversification of production as well as the export orientation of industries.

Attracting FDI is considered to be one of the most important tools for economic restructuring, keeping the qualified workforce at home. Foreign investments in the real sector were expected to create additional opportunities for employment growth. Also, the opportunities for a new professional training provided by the foreign companies were expected to strengthen further the capabilities of the Bulgarian citizens to govern their lives in Bulgaria and to limit the attitudes towards emigration.

The temporary macroeconomic and financial stabilisation in Bulgaria and the accession of the country to the EU are factors that influence the attraction of significant volumes of FDI in the period 2004-2008. In the years 2000-2010 have been accumulated 37.326 billion EUR of FDI. The reinvested earnings amounted to 3.973 billion EUR, the equity capital - to 22.506 billion euros, the other capital amount to 10.847 billion EUR. The FDI entries were significant for the external financing of the Bulgarian economy and in the period 2000-2010 the yearly average of FDI amount 3.393 billion EUR. The impact of the global financial and economic crisis was severe and between 2007 and 2008, FDI fell to 73.86 % and between 2008 and 2010 the decline amounted to nearly 5 times.

FDI flows to the manufacturing sector seems to have a positive effect on economic growth. Indeed, most of the theoretical work on the benefits associated with FDI tends to be related to the manufacturing-industry sector. The macroeconomic literature focus on the fact that not all forms of foreign investment seems to be beneficial to host economies. The distribution of FDI by economic sectors shows that in the period 2000-2010, major foreign investments are focused in two directions - the purchase of real estates and financial intermediation. According to estimations, nearly 23% of FDI were directed towards the purchase of real estates and business services 19.09% of FDI to financial intermediation, nearly 18% in manufacturing, nearly 16% at retail trade, cars repairing and other motor vehicles, 6.9% of FDI to the construction, 6.4% to the production and the distribution of electricity and steam-heating, gas and water supply, 5.15 of FDI to the transport and storage. Other economic sectors such as health, education, activities related to social and personal and others have remained out of sight of the foreign investors. FDI in those sectors amounted to only 6.28% of the total FDI. (Table 4)

Table 4

FDI by Economic Sectors, million EUR	
	2000-2010
Total	37325,4
Health, Social activities	10,5
Financial intermediation	7126,3
Activities related with the society and the others	314,9
Manufacturing	6552,3
Hotels&restaurants	584,4
Real estates&business services	8319,6
Education	14,8
Transport&warehouse&	1923,4
Electricity&Heating&Water supply	2372,1
Fishing	4,1
Construction building	2581
Non-classified	1266,5
Agriculture&Hunting&Wood Industry	206,4
Trade&Services on cars, motor vehicles&repairing	5843,8
Mining	205,6
Administration&Army rule&Social security	0,0

Source: Calculated using data from BNB.

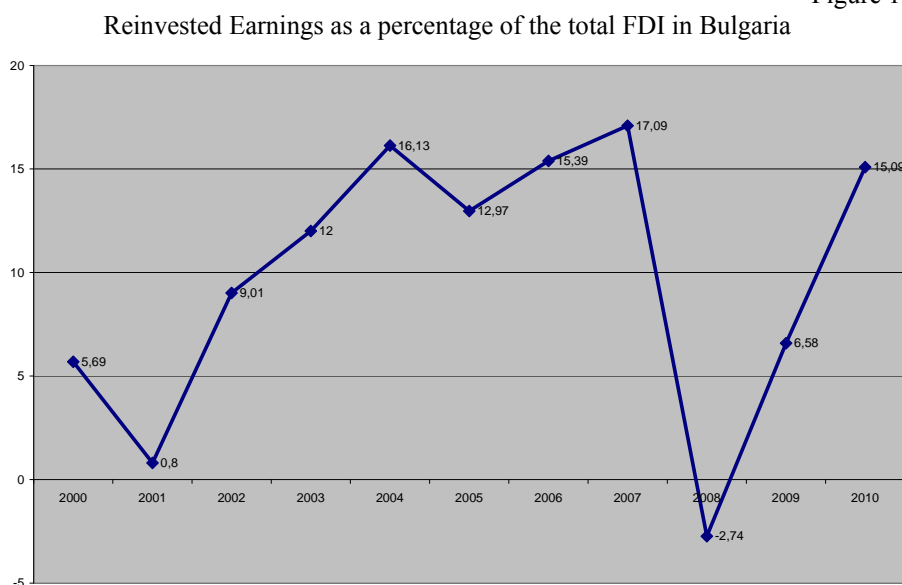
One of the positive sides of the stock of FDI in Bulgaria is the emergence of new investments, generated by the subsidiaries of foreign firms, settled in the country. Additional investments demonstrate the strategic considerations of the firm, such as enlargement or update improvement of existing industrial or service facilities.

Reinvested earnings are a component of investment flows. In international business literature to date, “nothing has been written regarding the empirical importance of reinvested earnings, or what factors govern the decision of whether income earned at a foreign location is repatriated to the parent in the home country, or whether it is reinvested at the foreign location.”⁹ Six major macroeconomic factors can be mentioned, as a means of managerial control, which affect investment opportunities in the host country: the profitability of foreign investments, the exchange rates level, the different systems of corporate governance, the tax treatment of repatriated foreign income (intra-firm dividends), and the use of dividend policy. Reinvestments focus on factors that increase the attractiveness of the host country as investment location and as alternative of repatriation of capital. Figure 1 shows that reinvested earnings in Bulgaria increased up till the fall in 2008 and starts to grow up again in 2009 and 2010. Reinvested earnings’ growth reflects the raising functionality of foreign companies, the realized economic growth, and the favorable overall investment climate. Some economists emphasize the crucial role of low corporate tax of 10% in Bulgaria for the increase of reinvestments. (However, there are no special evidences that the low level of corporate tax was a particularly important factor, determining FDI increase.) It is widely recognized that the positive economic

⁹ S. M. Lundan, Reinvested earnings as a component of FDI: an analytical review of the determinants of reinvestment, *Transnational Corporations*, Vol. 15, No. 3 December 2006.

real growth in Bulgaria in 2004-2008 was largely due to FDI inflows. The economic sectors that have been the “locomotives” of this process were real estate purchases and investments in business activities, financial intermediation, and manufacturing sector.

Figure 1



Source: Own estimations on BNB Data.

The consumption and the investments' increase contribute for an upward positive economic trend, suspended sharply by the economic crisis. The ratio FDI /GDP shows a strong depending of Bulgarian economy from FDI inflows. It is an indicator demonstrating the intensity and the integration of the domestic economy into the international investment market. Positive ratio of FDI to GDP reflects a good absorption capacity for foreign investments of Bulgarian economy. Table 5 shows that in the real sector have been accumulated FDI, which were the consequence of an active and subsequent capital transactions activity. Similar processes were observed in other countries of Central and Eastern Europe, which were showing the specificities of the industrial specialization of those countries, defining foreign investors' interest for FDI transactions in the region (Table 5).

Persistent current account deficits, driven mainly by the need for imports, have been characteristic in the years after 2000. FDI entries in the financial account permit to cover the shortfalls in the current account of the balance of payments.

Figure 2 shows that over the past decade, FDI covered the widening current account deficit of the balance of payments. The economic crisis was accompanied by a sharp fall in the industrial production, which demonstrates the decrease of foreign demand for the Bulgarian enterprises. The fall in import and export lead to a decrease in the level of the current account deficit. The reduction by nearly 12 times of current

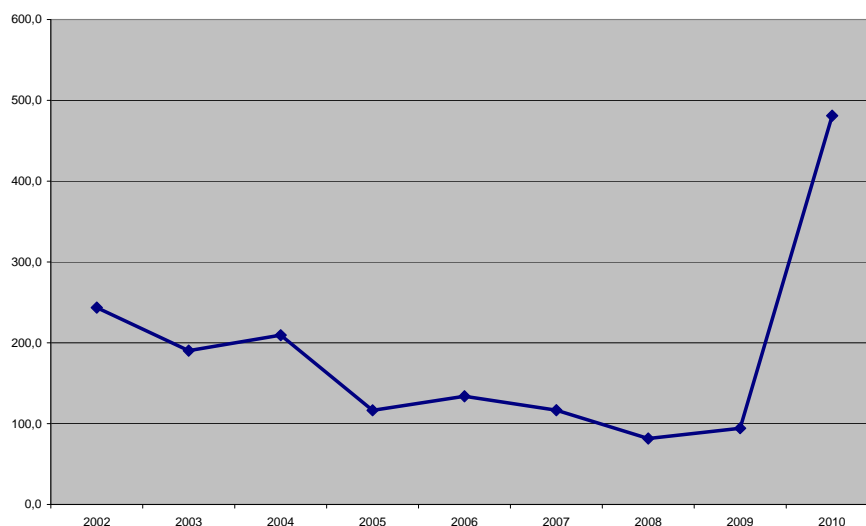
account deficit (from -3477 to -282.7 million euros), due to the sharp fall in industrial production, the contraction of consumption and the fall in investments are the main reasons, explaining the decline in the ratio FDI/ Current account deficit of the balance of payments. In 2010, FDI inflows (EUR 1,360 billion) completely cover the current account deficit of the balance of payments, which reflect the squeeze of the economic activity.

Table 5
FDI in the real sector of the economy of some countries in Central and Eastern Europe and Baltic States – Industry and services (excluding financial intermediation), % of GDP

	2003	2004	2005	2006	2007
Bulgaria	81	98	85	84	n.d.
Czech Republic	183	200	241	252	n.d.
Estonia	3	3	3	1	1
Latvia	11	8	8	10	16
Lithuania	18	22	38	45	n.d.
Hungary	29	34	n.d.	52	119
Poland	n.d.	n.d.	n.d.	n.d.	126
Romania	37	53	46	77	80
Slovenia	9	15		15	18
Slovakia	31	46	47	68	75

Source: Eurostat.

Figure 2
Relation between FDI and the Current Account of the Balance of Payments 2002-2010, %



Source: BNB.

Significant investors in the manufacturing and financial sectors in Bulgaria were coming primarily from Germany (29 companies), from Austria (12 companies), from the U.S.A (11 firms), Italy (8 companies), Switzerland (6 companies) UK (5 companies), Belgium (5 companies), Japan (4 companies) A few companies are coming from Denmark, the Netherlands, Iceland, Turkey, Russia, Czech Republic, Cyprus, Spain, Sweden, etc. Foreign investments are carried out mainly by developed EU countries.

The accumulation of FDI in Bulgaria was due to the combination of several complex factors from internal and external origin. The main reason for the increase of FDI entries in Bulgaria is related with the overall favorable international investment climate and the integration of Bulgaria to the EU, which undoubtedly reduce the investment risk for foreign companies. The low interest rates and relatively low feasibility of large gains in economically developed countries predetermined incentives for investments in the strategic plans for FDI abroad. The increase of FDI in Bulgaria, actually, can be explained with the positive economic growth. Nevertheless, the insufficient and undeveloped hard infrastructure, institutional problems, a suspected corruption in the administration have worsened the business climate and exacerbated contradictions in Bulgarian society, which undoubtedly raise barriers behind some important deals with foreign investors to fail.

Bulgaria's membership in the EU and the reduction of taxes on corporate profits (from 15% to 10%) and income from sales of shareholdings (10%) made an attempt to elevate Bulgaria as an attractive destination for international business. Low labor costs constantly have been cited as a factor that attract foreign investors, but by itself this factor can not attract investors. On the contrary, they are associated with lower living standards and low quality production, which is not attractive for a "quality" class foreign investors.

In Bulgaria, savings of the population are low compared with those in developed EU countries and therefore the inflow of capital from abroad is a major engine for the economic activity. FDI inflows were expanding opportunities to find new jobs, to ameliorate the standard of living etc. FDI proved to be an important instrument for safeguarding the macroeconomic and social stability in Bulgaria.

3.2. Are there an economic impact and links between FDI and Bulgarian emigration?

As it was underlined, the role of factor mobility has always been crucial in the theoretical analysis of international trade and flows of FDI across countries and regions. In order to reveal the possible links between FDI and migration flows across locations, it is important to clarify the mean of substitutability and complementarity between labour and capital. Immigration in a given country and outward FDI from that country are sometimes considered as complements and others as substitutes. Recently, some topics about the existing relationship between FDI and international migration flows have been clarified. Most of the papers in this

area look at whether these flows are substitute or complements for a given location (country, province, region etc.) or pair of locations.

We define migration and FDI flows as substitute when, seen from the perspective of a given location, they move in opposite directions (e.g immigration and outward FDI or viceversa) and as complements when they move in the same direction (e.g. immigration and inward FDI).¹⁰

The link between migration and FDI may be explained and qualified not only with the traditional approaches of international factor mobility, but also with some contributions on the possible mechanisms that might enhance either the substitutability or the complementarity between capital and labour movements. These impacts can be classified under the main effects on the countries with open economies, which are involved more or less in the international investments and migrations flows. “New trade theories and New Economic Geography stresses that, under certain circumstances (low congestion costs and trade barriers), technological factors or pecuniary externalities may create agglomeration effects, attracting both types of flows.” (Navaretti.G. B. 2007).

The relationship between FDI and migration at the firm level arise on the basis the huge literature of international trade with heterogeneous firms¹¹. The theory of heterogeneous firms cover issues and paves the way for the analysis whether the firm should invest abroad and hire emigrants and if this are alternative or complementary strategy at the firm level. The relationship of migration and FDI is worth to be mentioned, but those questions are not addressed here.

We focus mainly on complementarities between capital and skilled labour arising from the point of view of the host and the home country of migrants. From the point of view of the host country, the existence of a large skilled emigrant agglomeration may lead to the opening of international schools and making this location attractive for foreign companies and skilled professionals. The FDI entries in the country of origin of migrants like Bulgaria and investments in upstream industries may contribute for the development of new knowledge and skills in new information technologies. The adoption of some skill intensive industries in Bulgaria creates new jobs opportunities and enhances the employment of skilled workers, reducing the

¹⁰ It is important to clarify what is substitutability and complementarity of FDI and migration flows across locations. There is often some confusion on the meaning of these terms. For example, immigration in a given country and outward FDI from that country are sometimes considered as a complements and others as substitutes. We define migration and FDI flows as substitute when, seen from the perspective of a given location, they move in opposite directions (e.g immigration and outward FDI or viceversa) and as complements when they move in the same direction (e.g. immigration and inward FDI).

¹¹ “Heterogeneous firms” are related to the conception of “The knowledge-based theory of the firm” considering knowledge as the most strategically significant resource of a firm. Its proponents argue that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance.

incentive of emigration of skilled people (the brain drain).¹² In the case of Central and East European countries, the assessment of integration with the EU passes through the search for complementarities between skilled labour force and strong capital inflows. A large brain drain from Bulgaria, since the early 90s probably reduced the prospective for investments by EU developed countries in EU to transfer industrial or trade activities. Complementarities were arising also when foreign producers transfer their activities in a less developed country in order to profit from the lower wages and the abundance of low qualified labour force. These complementarities effects are typical for Bulgaria. For example, the small and medium enterprises in the field of textile and dresses mainly with foreign capital in the towns bordering Greece and Turkey took advantage of the low costs for labour in Bulgaria.

The enlargement of Bulgarian migrant communities in Greece and Spain and the retention of migrants' links with their home country can be a prerequisite for the transfer of foreign investment and new professional experience and knowledge. Networking means a transfer of growth-enhancing technology transfer, trade and FDI to the country of origin of migrants. Migrants would prefer to trade or invest in their home country, thus spreading all over new opportunities for doing business. They contribute also for the removal of cultural and social barriers between countries. Among the largest Bulgarian community in Spain, Greece, Germany and others, a business community is already formed, that may assist to attract potential investors in Bulgaria and in many different ways to help to overcome the uncertainty that accompanies each new transaction undertaken by the international companies in their country of origin. It is known that multinational corporations are encountering a number of information and technical barriers when deciding to transfer activities abroad. Also, networking effects may arise when Bulgarian investors work with Bulgarian migrants settled in the host country in order to organize and to carry out foreign trade deal or to start some other business.

The theoretical debate between FDI and migration is recent and demonstrate new evidences of international factor mobility, arising from new emerging markets dependency of foreign capitals' inflows, as it is the case of Bulgaria too. In the same time, significant emigration process from Bulgaria raises on the agenda issues such as whether foreign investors can unfold their activities, if most of the skilled workforce were out the country?

What have been observed in Bulgaria is that FDI entries have been promoted by privatization of the big ex-state industrial entities and banks. The accumulation of new foreign capital in the years 2004-2007 was due mainly to the interest from foreign individuals or entities for buying Bulgarian real estate properties, which fuelled the construction sector of the economy. The reinvested stocks of FDI, however, demonstrate an increase of the absorption potential of Bulgarian economy for foreign capital.

¹² Baldwin and Venables in 1994 in their study looked the effects of economic integration on the role of FDI and the incentives of migration of skilled people for Central and Eastern European countries.

From one point of view, the rise of FDIs in Bulgaria have been an incentive for some well educated Bulgarian to remain at home, finding better paid jobs and good professional realization. The rising foreign investments in the IT sectors for example proved to be an attractive pole for good professional carriers. People with lower education, non-qualified workers were employed mainly in the construction building sector.

Although, the scarce data, there are some examples and indicators demonstrating that in the times before the economic crisis, Bulgarian emigrants invested in real property estates in home and thus increased FDIs' level. They have not been especially tempted in the start of some kind of small business in the country of origin, and even if they decided to do this, the realization of their investment projects was difficult, due to different bureaucratic and regulation practices. There have been some signs that skilled Bulgarian migrants helped and promote the implementation of business projects with foreign investors and this tendency will continue in the future.

For some extent, a large brain drain of skilled migrants reduced probably the incentives for developed countries' firms to transfer their activities to other less developed markets. In Bulgaria a virtuous transition path was not observed, characterised by large capital inflows and little migration. Skilled and unskilled migrants can bring in their home country new knowledge and investments in the economy, but even during the economic crisis, the ration of return migration was relatively low. It is not realistic to suppose that most of Bulgarian migrants will return and spread out an upward economic trend.

The economic development is determined by the industrial and technological base of the country and the working institutions and the implementation of a variety of business skills that may influence foreign investors' decisions to come in Bulgaria. The development of links between business communities of Bulgarian emigrants abroad and the implementation of investments in foreign capital in their home country can really help to strengthen the economic and financial potential. Although, the most representative and important instrument, having an impact on households' living standard and the overall economic and social development was the appearance of the remittances, driven by the work of Bulgarian migrants abroad.

4. Remittances – Are They the Positive Counterpart of the Large Scale Bulgarian Emigration?

Like most of the countries with small capability to be financed, remittances are one of the most important sources of external financing with FDI. For a big part of the relatively deprived Bulgarian population they are the largest source and have served as a cushion against the economic and social turbulence in the country, brought about by transition to market economy. Workers' remittances are current transfers by migrants who are employed or intend to remain employed for more than a year in another economy in which they are considered residents.

Bulgarian migrants are in constant struggle abroad to prove themselves in highly competitive and different cultural and traditional societies. Their standard of living is significantly better than the average in Bulgaria. That is why Bulgarian economic migration, in most cases, sends money back home for the financial support of their families. These cash transfers are financial flows that are moving in the opposite direction of the migration flows. For many Bulgarian households, the cash transfers send by their relatives abroad are essential for the maintenance of their socio-economic balance and standard of living.

Remittances appear in the balance of payments after 2000. For the period 2004-2010. Bulgarians, living abroad, have transferred to their home country a total of nearly 3.740.6 billion EUR. According some unofficial data money transfers of migrants were between 30 to 40% higher than the officially registered data. Bulgarian migrants, regardless of whether they live abroad permanently or temporarily, sent home to their families the net sum of remittances of EUR 701,7 million in the period from October 2009 to October 2010.¹³ Previous transfers for 12 months (until May 2009) amounted to 693.4 million. Bulgaria is amongst the European countries in which money from migrant labour represent a significant percentage of GDP.

Table 6
Money Transfers from Bulgarians Living Permanently Abroad, % of GDP

Period	Remittances in million EUR	Remittances, % of GDP
2004	351.2	1.77
2005	369.5	1.69
2006	333.0	1.32
2007	634.7	2.21
2008	663.8	1.97
2009	693.4	2.07
2010	695.0	4.30

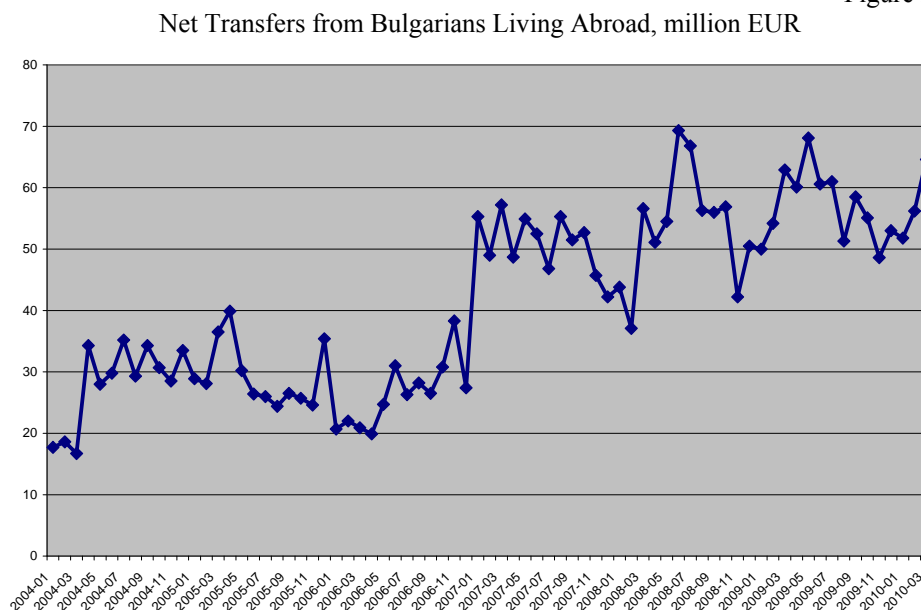
Source: BNB Current account, Personal estimations.

The monthly variations of remittances for the period January 2004-March 2010, demonstrate a net upward trend, even in 2010, when most of the EU developed countries and the USA experienced a fall in economic activity and employment.

Despite the economic crisis 2008-2009 and the squeeze in jobs offered abroad, Bulgarian migrants succeeded to find opportunities to keep their work and to remain on the labour market. If they were dismissed from a previous work, they have found the way to accept some other jobs, even if they are not so well paid as before. In most of the cases, Bulgarian migrants didn't stop to send money back home and as Figure 3 shows there is no a sensible decline in remittances' volume.

¹³ Bulgarian Central Bank

Figure 3



Source: BNB.

Similar information is shown on Figure 4, where workers' remittances, compensation of employees and comprise current transfers by migrant workers and wages and salaries earned by nonresident workers have been put in evidence.¹⁴

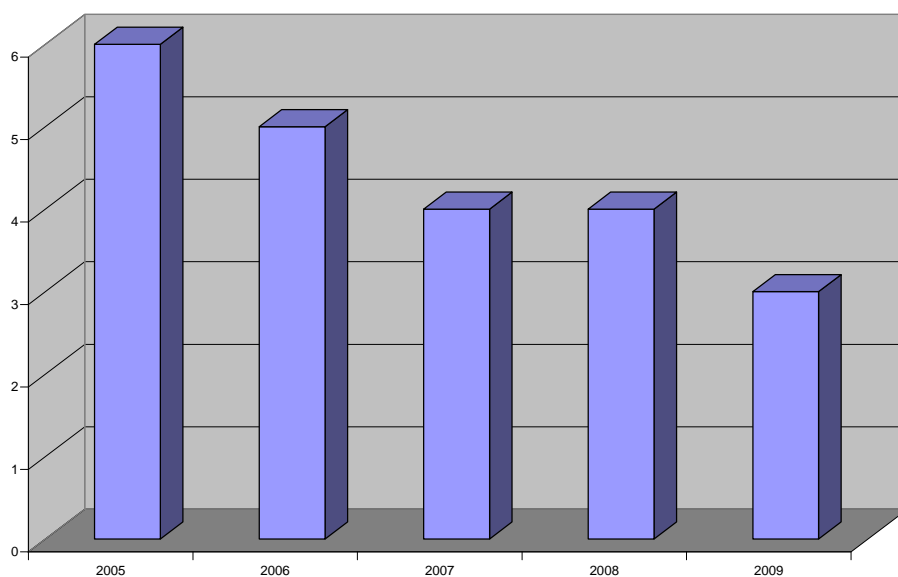
The increase in the volume of migrants' cash transfers is impressive and the comparison with other sources of external financing like FDI and EU Structural Funds represent that remittances are a much more stable cash flow over time. Remittances are much higher than the net financing obtained by Bulgaria of EUR 432 million for a year up to May 2010 from EU Structural Funds. (Actually, Bulgaria received EUR 867 million for the period, but the costs amounted to EUR 435 million, earmarked for membership EU imports).

Remittances reveal to be most stable like external cash flows than FDI entries. As it was underlined, during the economic crisis, FDI fell sharply in Bulgaria. Here, we can put the question to what extent can we rely on FDI inflows like a main source of external financing, when many countries, also from Central and Eastern Europe, must enter in intense competitive struggle to attract FDI of quality, view the exacerbated caution of foreign investors to undertake new deals abroad in the post crisis period. FDI can diminish or even stop with the change of the economic situation. The financing from EU Structural Funds is quite difficult to be obtained and can only partially assist in the financing of the economy. However, the main

¹⁴ Data are the sum of three items defined in the fifth edition of the IMF's Balance of Payments Manual: workers' remittances, compensation of employees, and migrants' transfers.

source of financing of the economy in the years 2008-2009 revealed to be remittances. When we compare the remittances' flows with FDI inflows, the evidence is that the FDI level for 2010 is lower than remittances. For some other countries in South-eastern Europe like Albania, Moldova, the remittances' inflows from relatives abroad exceeds the volume of FDIs.

Figure 4
Workers' Remittances and Compensation of Employees, Received (% of GDP) for Bulgaria, 2006-2009

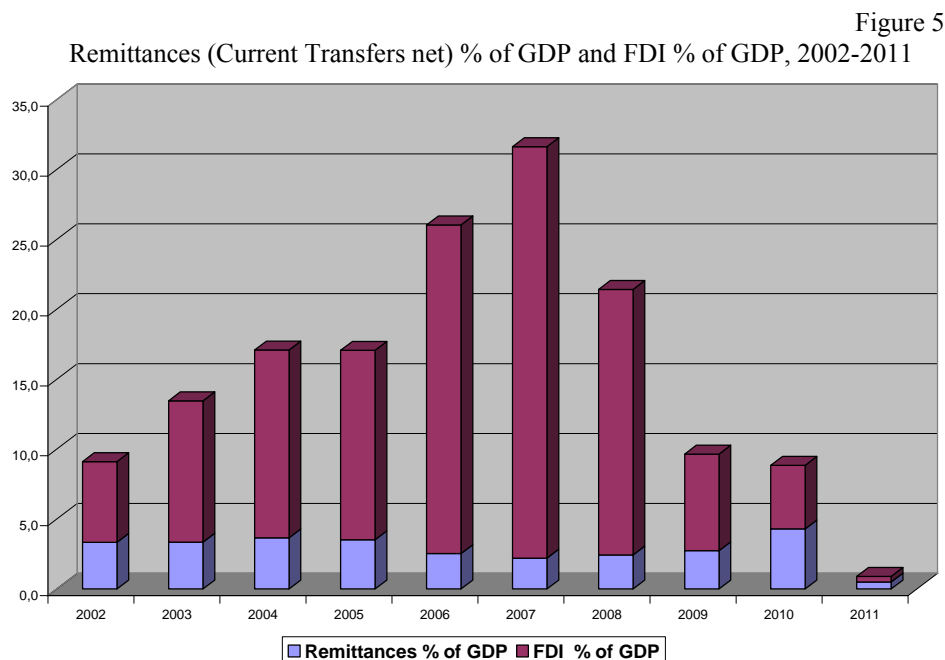


Remittances are classified as current private transfers from migrant workers resident in the host country for more than a year, irrespective of their immigration status, to recipients in their country of origin. Migrants' transfers are defined as the net worth of migrants who are expected to remain in the host country for more than one year that is transferred from one country to another at the time of migration. Compensation of employees is the income of migrants who have lived in the host country for less than a year.

Source: World Bank staff estimates based on IMF balance of payments data, and World Bank and OECD GDP estimates.

The rises in remittances brought back to Bulgarian households have a positive impact on the economy and expand people's spending. Emigrants' money is important for the increase of the net incomes of households and increase also household consumption. Remittances are used for buying food, paying bills, for overhead costs for medical care, education, and thereby for alleviating the deficits in the macro systems of social support, of health, and of education. Remittances from migrant workers are a lifeline to large sections of the Bulgarian economy, particularly the retail trade and the real estate market. Taking into account, that

Bulgaria has a high proportion of its population, living and working abroad, the country remains one of Europe's biggest recipients of remittances.¹⁵



Remittances appear to be a vehicle for the increase of real estate purchases or for the start up of a small business. According the hypothesis of complementarities, we can presume, that some of the migrants will try to invest in the country, being acquainted with the cultural and traditional particularities of their native country and trying to transmit and to apply contemporary business practices.

With Bulgaria joining the EU, it has been suggested that incomes will grow and respectively, the incentives for migration will decrease. However, emigration continues (though far from the pace of the last decade), to be an important factor due to the big differential in wages between Bulgaria and the other EU Member States. Salaries in EU developed countries are nearly 14 times greater than those in Bulgaria. Table 1 clearly demonstrate that Bulgaria has the lowest GDP per capita. In 2009 GDP per capita amounted to nearly 40% of the average for the developed EU member states. Those facts report that remittances will be for a long time a safety net for Bulgarian households. Their contraction may have a significant negative effect on economic and financial situation, not only on Bulgarian households' welfare, but also on macroeconomic equilibrium.

¹⁵ World Bank estimations

In general, remittances are considered as a real financial benefit for the country after the exodus of a substantial part of the skilled labour force, as well as workers with a lower professional qualification. Remittances are not only a monetary expression of solidarity, they have also a social dimension, representing the social ties of help, solidarity, reciprocity, concern, obligation that express the relationship between the members of one family, no matter that they live on different countries. Money transfers coming from abroad have a broader scope of action because they benefit not only relatives, over time remittances become a factor influencing the welfare of the community. Over time, the increased consumption and welfare because of the remittances influence the economy on macro level. The increase of money transfers continues to be clearly positive, despite some decline in 2011. The ratio of remittances to the GDP has gradually risen.

This explain partially the relatively better income position of one particular part of the population in comparison with people living only with their salaries and not receiving such funds. Remittances will continue to grow up during the next years. However, sooner or later, we suggest that they may start to stagnate with the diminution of relatives in the country of origin.

The scale of remittances raises important questions about the impact on Bulgaria's economy and whether or not remittances counterbalances the brain drain experienced by the country especially through permanent migration. Remittances can help financially households and contribute for macroeconomic stability; however they are not in a position to compensate the big losses for the economy because of the increased skilled migration. The leakage of nearly 16% of the population would have an unpredictable negative effect on the economy. The lack of skilled workforce may have adverse effects on the restructuring of the Bulgarian economy and the impossibility to overcome the gap in the productivity of labour between Bulgaria and other EU countries. New comparative advantages are needed in order to enhance economic development and living standard in Bulgaria. One main target is the retention of highly skilled workers.

As it was underlined, differentials in wages between Bulgaria and the other EU member states continue to be a factor, pushing out labour flows outside the country and the remittances will be an issue of financial and economic survival for households. However, the economic development of Bulgarian economy may lead to the enhancement of the economic role of the remittances. They can be used for most productive purposes, for investments and not only to cover the budget constraints. In a better organised state, remittances could be directed in real sectors of the economy and in welfare-enhancing directions. This will increase the role of migration in the economic process and reveal some positive factors of the complementarities between remittances and foreign capital inflows.

Conclusion

The traditional approaches of the international factor mobility were supplemented by new economic contributions, qualifying new possible mechanisms that might

strengthen either the substitutability or the complementarity between foreign capital and labour movements. For example, skilled migrants settled abroad enhance the knowledge and the interest of foreign companies towards their native country. This enhances the perspectives to orient foreign companies with upper technological level to invest in less developed countries like Bulgaria. Bulgaria's integration into the international market has increased its dependence on the movement of the international factors of production.

On one hand, Bulgaria succeeds to attract FDI's flows and it contributes to economic development. The accumulation of FDI in Bulgaria influence positively the growth in GDP, boost ahead the development of the economy and restraint the leakage of labour force abroad in some years.

On the other, a huge numbers of Bulgarian people choose to emigrate driven by different motives. The most important incentives for emigration were economic reasons and the unstable economic and social policy of Bulgaria in the years after the transition to market economy. The emigration of skilled people in active age reduces the number of qualified staff in the country. Later on increase the emigration of low skilled people towards destinations in South Europe.

The formation of large Bulgarian migrant community in some host countries may lead to enhance the complementarities between FDI's and migration. The relationship between the large-scale migration outside Bulgaria, FDI growth is difficult to be estimated. In general this relationship was only mentioned by Bulgarian economists, but no actual works on the topic have been published. Although, the active purchases of Bulgarian real estate and industrial properties by Bulgarian migrants, fuelled the prices and activated the transaction processes. Foreign firms have been helped in their strategic plans to enter Bulgarian market by Bulgarian migrants and thus some incentives were created for the appearance of new jobs. FDI's of quality and reinvestments make Bulgarian labour market much more attractive for young fellows. This reality put some barriers on their willingness to find professional realization abroad. The complementarities effects may induce an opposite mobility of capital and labour force and in some cases FDI's and migration may move in the same direction. In this case the real economic growth and the economic development attract FDI's from developed countries, as well as inflow of skilled Bulgarian migrants, searching better job opportunities. This reduces the brain drain and increases economic growth and work prospects in Bulgaria. In all the cases there are complementarities between capital and skilled migration.

The evolution of the Bulgarian Diaspora abroad may lead to the rising of this kind of relationship like it was already observed in the other countries, namely by pushing in the intentions of Bulgarian migrants to invest more in their country and by creating a network for the development of a small business.

The economic crisis, which is by far, not completed in Bulgaria, pushed most of the foreign companies, view the fall of demand on the world market, to restrain their production capacities and activities in Bulgaria. This influenced unfavourably the labour market and the increases of the unemployed have been a new incentive for

emigration or at least to make such plans. The unemployment rise and the consequent impoverishment of the Bulgarian population related with the growing inflation may lead to further enlargement of the living standard gap between Bulgarian and the developed countries in Europe. This will continue to be a push factor for emigration.

Actually, remittances ease the immediate budget constraints and needs of families by bolstering crucial spending needs on food, health care, and schooling expenses for the children. Such a flow of money transfers is a source of small scale savings and contribute along with FDI for the internal economic sustainability of the country. They are a relief for a big part of the Bulgarian population and a safety net for Bulgarian relatively poor people.

FDI and remittances have a positive impact on the economic growth of Bulgaria. The increase of remittances positively influences GDP per capita. The appearance of remittances can not compensate the lost of population, which is clearly an unfavourable demographic, economic, social, political gap. Remittances are neither a panacea nor a substitute for the economic development and welfare amelioration of Bulgarian population.

Drastic change in economic environment, however, requires appropriate changes in the overall investment policy of Bulgaria. The slow recovery of the economy, the rise in unemployment, the low level of incomes require the implementation of special government policies for the improvement of migration policies, for the enhancement of the economic potential of the country, which may induce better absorption capacity of FDI and create stimulus for skilled Bulgarian migrant to be involved in the internal investment and remittances schemes. This will contribute for doing investments in strategic oriented export driven economic sectors which can keep the qualified labour force in the country and limit the migration flows.

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