

## **BULGARIA AND RUSSIA – EUROINTEGRATION PROCESSES, ECONOMIC RELATIONS, LABOUR MARKETS**

A bilateral Bulgarian-Russian scientific workshop (roundtable) was held on 3<sup>rd</sup> June 2004 at the Institute of Economics at BAS. Present were representatives of research institutes, universities of economics, the Embassy of the Russian Federation, ministries, non-governmental organisations, business circles. The workshop was organised within the framework of two joint projects between the Bulgarian Academy of Sciences (BAS) and the Russian Academy of Sciences (RAS). The first project "Issues and Prospects of Bulgarian-Russian Economic Relations under the Conditions of Eurointegration Process Development" is implemented by the Institute of Economics (IE) at BAS and the Institute for International Economics and Political Studies (IIEPS) at RAS and managed by Senior Research Fellow *Lilia Chankova*, Ph.D., and Prof. *Ruslan Grinberg*, Dr. Ec. Scs., on the Bulgarian and Russian side respectively. The second project "Characteristics of Labour Market Formation in Post-Communist Countries against the Background of European Integration Processes" is implemented by the Institute of Sociology (IS) at BAS and the Centre for Social Policy at IIEPS - RAS and managed by Prof. *At. Atanasov*, Dr. Soc. Scs. (IS-BAS), and Dr. *A. P. Sedlov*, Senior Research Fellow (IIEPS - RAS).

Senior Research Fellow *Mitko Dimitrov*, Ph.D., director of the Institute of Economics, welcomed the participants and pointed out that was the first of its kind scientific meeting of economists and sociologists from Bulgaria and Russia after the beginning of political changes in both countries. He outlined the aims of the forum: to discuss current economic and social problems of bilateral relations under the conditions of running eurointegration processes; to find explanations for the drastic reduction in the trade between Bulgaria and Russia over the last ten years; to test different hypotheses and make recommendations to state administrations and businesses aimed at solving the problems.

Representatives of the Institute of Economics at BAS, the Institute of Sociology at BAS and the Institute for International Economic and Political Studies at RAS made presentations at the workshop.

The first part of the morning session, chaired by Prof. *At. Atanasov*, Dr. Soc. Scs. (IS-BAS), was devoted to the issues of current and future economic development of Bulgaria and Russia. Prof. *Ruslan Grinberg*, Dr. Ec. Scs., director of IIEPS-RAS, analysed the contradictions of the development of the Russian economy over the last 4-5 years in his paper *Lights and Shadows of the Russian Economy*. He pointed out that Russia had reached record-breaking GDP growth rates, a highly positive trade balance, an increase in foreign exchange reserves, an accelerated development of the stock exchange market, a credit rating increase, a decrease in the foreign debt and inflation rates, an increase in the disposable income. People feel optimistic about the stabilisation after the crisis in the 90's. At the same time there goes a debate in the Russian society if this represents a

sustainable growth or a growth without development. Prof. Grinberg defended the second thesis and put emphasis on the fact that the economic development occurred after a ten-year recession. It is expected that even if the growth continues with the same high rate, the 1989 level will be reached only in 2009-2010. The current situation arouses much more worry than optimism in scientists. Two thirds of the economic boom is due to the export of fuels and raw materials and is combined with stable high prices on the world commodity markets. There is no diversification of production and modernisation of the economy. The production has a premature structure established during the crisis years. The export of complex machine-building goods has been decreasing. According to Prof. Grinberg some of the main issues are: the underfinancing of science, education, infrastructure and the fight against socially important diseases; low wages in budgetary organisations; the aggravating social polarisation; the depression in the small business development; de-intellectualisation of labour and primitivisation of production. Russia was a world leader in the scientific field, but now the country is losing its position in the development of education and science. It is necessary to replace the ideological liberalism with rational and pragmatic liberalism, to activate the scientific production potential, to implement a governmental structural and innovation policy. Concerning foreign trade relations between Bulgaria and Russia Prof. Grinberg emphasised that the market was free and it was not possible for the state to force Russian businessmen to buy goods produced in a certain country, but he pointed out that market forces did not always operate freely. For example, agricultural producers are subsidised in France and French goods are cheaper, i.e. more competitive on the Russian market.

Prof. *Ivan Angelov*, Dr. Ec. Scs., corresponding member of BAS, presented *A Strategy for Accelerated Economic Development of Bulgaria until 2020*, developed by an expert team from IE-BAS. He examined the long-term issues (until 2010 and 2020) of the accelerated development. The strategy includes the contemporary dimensions of the development, i.e. this is a strategy for sustainable development, which covers its economic, social and environmental aspects. One of the most important aims of this strategy is to propose priorities for development. Prof. Angelov pointed out that the study differed from the traditional understanding of strategies for priorities. The main task of the strategy in the field of priorities is to show where the state should focus its efforts in order to establish the fundamental conditions for an intensive transformation of society. The accelerated development is a very complex process. It depends on a whole set of internal and external conditions in a strictly defined combination. One of the main conclusions of the presented study is that EU integration offers favourable conditions for such development, but this is not an automatic process. The accelerated development is possible in Bulgaria, but it is not guaranteed. The access to EU pre-accession, structural and other funds, the common internal market and currency, common institutions, legislation, scientific, technical and other assistance establish a potential for accelerated development of lagging member-countries. It is crucial for

this potential to be utilised. Prof. Angelov presented also the fundamental concepts used in the development of the strategy (the man – the main aim of the development, the state and the market co-operate mutually); the fundamental principles of the proposed strategy; its priority objectives; target economic indicators (GDP growth rate, structure of growth factors, etc.); target social indicators (income differentiation, social security expenditures, age structure of the population) and target environmental indicators.

Dr. G. A. *Vlaskin*, Senior Research Fellow (IIEPS-RAS) presented *A Strategy for Accelerated Development of Russia*. He defended the thesis that the issue with the accelerated economic growth could be addressed only by a combination of approaches for "accelerated" and "breaking" development. Dr. Vlaskin explained that it was possible to make "a break" in some key high technologies which could become the heart of a new science-intensive production. At the same time the accelerated development should continue, which would lesson the lagging in other sectors, until the less effective industrial production improves through implementing state-of-the-art technologies. The break is impossible without establishing "an intellectual rear". The option "mixed development" could be implemented in Russia due to the preserved fundamental scientific potential, the high educational level of the population, diverse natural resources, the Russian huge market. All these conditions favour the absorption and dissemination of new techniques and technologies.

Studies show that if the annual GDP growth rate in the USA is 2%, then Russia should keep a constant growth rate of 11% for thirty years in order to catch up with the US GDP per capita level. Even if this could be possible in theory provided all national forces were mobilised, it is not possible to be achieved in practice in an open liberal economy, which is integrated into the world economy, where all other countries have a 2% growth rate. If the situation in competitor-countries improves, it could improve in Russia too, but it is not possible to reduce significantly the differences in the GDP levels under the conditions of liberal open internal markets. In order to solve this contradiction and to ensure accelerated and effective post-industrial development in Russia by rates, which are ahead of the competitor-countries, the crowding of the state out of the management of the innovation sector must stop. Dr. Vlaskin underlined the necessity of a carefully developed industrial policy, which should include measures for a direct governmental regulation of the structural-technological change and measures for an indirect financial regulation of these processes.

The second part of the morning roundtable session was chaired by Senior Research Fellow *Lilia Chankova*, Ph.D., IE-BAS, and covered issues concerning the economic relations between Bulgaria and Russia in terms of Eurointegration processes.

The first paper *Russia and the European Union: Economic Realities and Prospects* was presented by Prof. *S. A. Silvestrov*, Dr. Ec. Scs., IIEPS-RAS. He analysed Bulgarian-Russian relations in the context of the wide Common European

Economic Area (CEEA). Prof. Silvestrov pointed out that the Russian economy depended on the external market where around 1/3 of the Russian GDP was formed. Concerning Russia-EU relations, the country is in an unenviable position because the EU dictates the quality standards of goods and does not recognise Russian standards. Russia recognises the priority of international law, but will not accept *Acquis Communautaire*. The country needs economic diplomacy for conducting multi-dimensional policy with Europe, Asia, America in fields of common interest and for achieving economic and political concessions and compensations. The negotiations with the World Trade Organisation (WTO) and the preparation for WTO membership, which are expected to finish next year, exert strong influence on these processes. Within the above context bilateral Russia-EU relations during the 2002-2004 period witnessed self-determination for both parties concerning economic interests, partners, sectors of co-operation. Bulgaria should also determine promising fields of co-operation. The co-operation in the CEEA could develop faster in sectors such as: non-nuclear energy, Pan-European transport system, environment, education, science and technology, fight against terrorism and transboundary organised crime. The development of co-operation on a regional and local level would enable some more effective solutions of specific problems concerning the CEEA establishment, because Russia-EU relations take no account of the peculiarities and diversity of Russian and European regions. The problems of economic relations between Russia and Central and East European countries (CEEC) are connected with misbalanced trade – fuel and raw materials dominate the trade and the participation of Russian producers in the modernisation of industrial projects in CEEC decreases. Prof. Silvestrov pointed out that the opportunities for improving the Russian position on CEEC markets were connected with capital transfers in sectors where the country had economic advantages and accumulated experience in technical assistance. In his opinion projects for investment co-operation are some of the most prospective ones.

The second paper *Contemporary Situation of Trade Relations between Bulgaria and Russia* by senior research fellows (IE-BAS) *Vi. Tsarevski*, Ph.D., *M. Lazarova*, Ph.D., and *E. Panushev*, Ph.D., analysed the dynamics of the monetary quantity of foreign trade of Bulgaria from 1996 to 2003. The issues of the wide-opened gap between import and export and the constantly increasing negative trade balance were emphasised. According to the authors the main reason is the low competitiveness of Bulgarian goods combined with the sudden liberalisation of trade and the appreciation of Bulgarian currency in real terms since the beginning of 1997. The export and import status of services has been more favourable and each year Bulgaria compensates for the negative trade balance by revenues from services and capital net income. Foreign exchange reserves in Bulgaria are increasing, but foreign gross debt increases, too – it is above \$ 13 billion and is almost equal to the 1992 level. Dr. Vi. Tsarevski outlined the trends in the export-import geographical structure. During the 1996-2003 period a constant increase in the relative share of the EU members and a decrease in the share of Russia and

NIS was observed. The decrease seems quite drastic when compared to data from the 1980s. During that period the USSR share in trade was 55-60% and the share of the members of the Council for Mutual Economic Assistance (CMEA) was about 80%. Compared to other former socialist countries Bulgaria had the highest foreign trade share with the USSR and that is why the country suffered most severely from the USSR disintegration. Currently, almost all trade between Bulgaria and Russia is concentrated in the import of energy resources. The trade balance is extremely negative, export is negligible. Dr. Tsarevski analysed the possibilities for compensating the negative balance: decreasing the import of energy resources is not possible and desirable; increasing the export of Bulgarian goods is desirable but unrealistic in the short-run and the last possibility - increasing the net inflow of Russian capital through credits and investments in Bulgaria. Issues concerning the contractual and legal base between the two countries were also pointed out, as well as the lack of reliable data on foreign direct investment (FDI) and the low amount of Russian FDI in Bulgaria.

The presentations at the morning roundtable sessions were followed by many speeches which deepened the scope of problems discussed and proposed specific solutions. Some of the discussed topics were: favourable factors for sustainable development, possibilities for restoring and intensifying relations between Bulgaria and Russia in the context of EU and WTO accessions, issues caused by the globalisation and monopolies, possibilities for innovations development and technology transfer.

The afternoon session was chaired by Prof. R. Grinberg, Dr. Ec. Scs. (IIEPS) and was devoted to labour markets in Bulgaria and Russia. Prof. At. Atanasov, Dr. Soc. Scs. (IS-BAS), presented a paper *The Labour Market in Bulgaria - Current Situation and Trends* developed in association with senior research fellows S. Todorova and Z. Toneva. The unfavourable economic environment for the labour market formation was outlined (a drop in the GDP, high inflation rate, decrease in the economic activity of the population). Prof. Atanasov characterised in general employment and unemployment in Bulgaria during the period 1989-2003: peculiarities of employment, status of employment, location, gender, age and education of the employed, the size of the black labour market, the social profile of the unemployed, youth and women unemployment. The issues of long-term unemployment were pointed out. This type of unemployment causes multi-dimensional economic and social consequences where social exclusion of people is a more important and serious issue than the direct economic losses. Those unemployed, who have been on the labour market for three or more years, are more than 1/3 of the long-term unemployed. Long-term unemployment is widely spread in villages, as well as among women and younger people. Prof. Atanasov summarised some problems and trends of the labour market in Bulgaria. Labour demand has dropped significantly and there is a considerable restructuring of the demand among economic branches and sectors. The trend of unemployment decrease is weak and unsustainable. Attempts to limit the black labour market

produce no hopeful results. The unemployed in villages, youth, young women (aged 15-19), people with low education status are groups at risk on the labour market. External migration is considerably high in Bulgaria. Prof. Atanasov emphasised the importance of the social employment policy and presented some national employment programmes in Bulgaria, as well as the unsolved problems with the lack of sustainable employment after the end of those programmes.

Prof. A. N. Ananiev, Dr. Ec. Scs. (IIEPS) who is also a deputy director of the Social Policy Department at the Ministry of Economic Development in Russia presented a paper titled *Social Problems in Russia – Analysis and Prospects*. A special feature of the Russian economy is the necessity of increasing the living standard and developing a modern national economy at the same time. There are social issues which are common for Bulgaria and Russia. Their complex aspects should be analysed and the contradictions between the economic and social development should be taken into account. Prof. Ananiev underlined that the preparation for WTO membership in the context of globalisation was a peculiarity of the socio-economic development of Russia. According to him several consequences are expected as a result of the membership: structural changes of production, establishment of an open labour market, increase in unemployment, international legal and illegal migration (Russia loses its intellectual resources as a result of it), intensification of social stratification and regional disparities. Prof. Ananiev summarised also the main social problems in Russia: worsening demographic status and poverty, constant decrease in the number of population, depopulation of border regions, increase in the number of children born out of wedlock. Poverty is of a complex nature. The unemployment rate decreases but there are employees with wages below the poverty margin. Great disparities could be observed between the regions. There is also a problem with the single income tax rate which causes “reproduction” of poverty.

Questions to speakers and discussions at the afternoon session were connected with government and corporate programmes for qualification and re-allocation of labour force in economic sectors and between them; the decrease in the staff number of research institutions and emigration of scientists; disadvantages of the single income tax rate; income polarisation of society; social consequences of WTO membership.

At the end of the workshop the participants expressed a common opinion that it was a good beginning of contacts between Bulgarian and Russian scientists and that useful information on social and economic problems and solutions in both countries had been exchanged. Contacts are expected to expand in the future through joint publications and a forthcoming bilateral meeting in Moscow within the framework of BAS and RAS projects.

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