

CHALLENGES OF COMPETITIVENESS IN THE CONTEXT OF BULGARIAN ACCESSION TO THE EUROPEAN UNION

A scientific and applied conference entitled "Integration of Bulgaria into the EU - Challenges of Competitiveness" was held on March 16, 2005 in the auditorium of the Bulgarian Academy of Sciences (BAS) under the auspices of the President of the Republic of Bulgaria, Mr Georgi Parvanov. It was organised by the Institute of Economics - BAS, with the support of the Friedrich Ebert Foundation, Drujba Plc. and the Bulgarian Industrial Capital Association, as well as a media partner – the *Pari Daily*.

Researchers from different institutes, organisations, representatives of businesses and Members of Parliament took part in the forum.

The Conference was opened by *Senior Research Fellow Mitko Dimitrov, Ph.D.*, Director of the Institute of Economics - BAS. Bulgaria's President *Mr Georgi Parvanov* greeted the Bulgarian Academy of Sciences and specially its Institute of Economics and thanked the authors of conference papers for their initiative. He pointed out the main reasons for accepting with pleasure the invitation of the Institute of Economics for patronage of the Conference: paramount significance of the issue, which would become even more acute in the future and the importance of the development stage that Bulgaria was entering - stage of adaptation and convergence to European economy. According to Mr Parvanov, combining analyses of macroeconomic aspects of competitiveness and problems on a company level in the course of the conference discussions could be a precondition for valuable conclusions and useful decisions that could underlie the economic policy of Bulgaria. In conclusion, he expressed a high opinion of activities of the Institute of Economics - BAS and pointed out that it was a research unit, which endeavoured to be on the level of contemporary requirements and to provide Bulgarian policymakers with objective, precise and theoretically sustained concepts.

Mrs Nina Radeva, Member of Parliament and Chairlady of the Budget Committee at the 39th National Assembly, delivered a welcoming speech. She admired the decision of the Institute of Economics - BAS to organise a conference on competitiveness. It is indicative of the fact that the Bulgarian Academy of Sciences addresses real issues of the economy of the country. There have been relatively favourable conditions in a macroeconomic aspect over the last years. For the first time in decades, the currency board has enabled the Bulgarian economy to develop within a stable monetary framework and internal and external stability. The government follows a balanced budget policy in the fiscal sector and thus, avoids spending accumulated savings on current expenditures. Preserving the currency board until Bulgaria joins the EU will be a challenge, as well as the gradual decrease in funds redistributed from the national budget. There are also improvements in terms of microenvironment - reduction in tax rates, increase in public and private investments in infrastructure, etc. In addition to the macro and microeconomic environment, entrepreneurial spirit is very important too. It is not possible to have competitiveness without entrepreneurs showing readiness to take risks, to invest in new assets, to organise people and resources.

Conference participants were greeted also by *Mr Arnold Wehmhörner*, Regional Director of Sofia Office of Friedrich Ebert Foundation. He hoped that opinions and constructive proposals made at the conference could be applied in the successful preparation of Bulgaria for joining the EU.

Competitiveness of Bulgarian Economy (Macroeconomic Aspects)

Two papers were presented at this session: *Competitiveness - the Biggest Economic Challenge to Bulgaria in the European Union* (Prof. Ivan Angelov, Dr. Ec. Scs., corresponding member of BAS) and *Impact of Competitiveness on the Foreign Economic Orientation of Bulgaria* (Senior Research Fellow Emil Panusheff, Ph.D. and Senior Research Fellow Iskra Hristova - Balkanska, Ph.D.)

The first paper focused on aspects of competitiveness, which had been broached by a just a few if any publications on this topic in Bulgaria so far. Such aspects include: evaluation of competitiveness by a system of indicators; some less known indicators of its level and dynamics; strong and weak positions of Bulgaria for enhancing competitiveness; the relationship between competitiveness and indebtedness of companies; why it is necessary for Bulgaria to speed up the accelerated increase in competitiveness; time horizon of relative cohesion with the EU in terms of competitiveness and ensuring investments for competitiveness enhancement. It is alarming that Bulgaria is lagging behind in reforming judiciary and administration. However, falling behind in competitiveness is far more significant and difficult to overcome. Billions of Bulgarian leva and decades, rather than years, will be necessary to catch up on the competitive level. Contrary to the opinion of some economists, Prof. Angelov stated that financial stability, privatisation and liberalisation were not enough for the competitiveness growth. In addition, it is necessary to have: structural and technological modernisation; healthy and qualified labour force; active innovation activities; development of health services, education and culture; high accumulation of investments and many other preconditions and their synergy. In conclusion, Prof. Angelov recommended to re-assess the short- and medium-term economic policy of Bulgaria and to develop a long-term policy, which was non-existent currently. The main objective of the new economic policy should be the economic integration of Bulgaria as an equivalent member of the EU.

Changes in the foreign trade relations were outlined in the first part of the second paper. The transition towards new economic relations and the accession of Bulgaria to the EU will necessitate the enhancement of the national economic competitiveness. It is a factor for strengthening the position of the country in the European economic area, especially in the course of its enlargement, as well as an answer to challenges related to opening up of the national economy. Increase in competitiveness improves positions of some commodity groups on the Common European Market. The concentration on some commodity positions necessitates diversification of the export structure. Considerable import of consumer goods

aggravates the trade balance and efforts should be made to improve the competitive positions of export-oriented companies. The second part of the paper covers the impact of foreign direct investments on the foreign economic sector in Bulgaria. Foreign direct investments (FDI) differ from other types of international capital flows in the fact that a foreign company exerts control on the company in which it invests. FDI is one of the main tools for economic development of a given country or region due to its ability to transfer management and technical capacity. In addition, it is a main component of a company's strategy targeted at opening foreign branches. FDI leads to comparative advantages of acquiring ownership (in the form of assets, patents, trade secrets, goodwill, etc.) Competitiveness enhancement and attracting FDI in structure-determining economic sectors should be based on a special strategy. First of all, it is necessary to improve the investment climate through amending customs policy and curbing corruption; to improve the access to financing of small- and medium-sized enterprises and to remove barriers to inter-regional trading.

Speeches and contributions of participants made at this session could be divided in two groups: General macroeconomic aspects and Aspects concerning the competitiveness of labour force, education and science in Bulgaria.

The following speeches refer to the first group:

Competitiveness, Economic Growth and Living Conditions (Senior Research Fellow I degree Vasil Todorov, Dr. Ec. Scs.) A starting point in the speech is the outlook that people are the main value in a modern, human, civilised and democratic society. The economy is socially committed and its objectives (competitiveness, macro-financial stability, growth, etc., considered in a broader social context) are turning into tools for achieving the fundamental socio-economic objective - supporting and improving living conditions of people and economic opportunities for intellectual development adequate to the human nature. Prof. Angelov sticks to a strategy, which is approved by the theory and confirmed by historic experience - increasing competitiveness, growth and hence, accelerated improvement in living conditions. It is in fact, the way from a historic point of view. However, what will be the social results from enhancing competitiveness and growth in a near perspective during the next 5 or 10 or 15 years? According to Prof. V. Todorov, simple calculations show that the past 15 years of transition plus some 8-10 years or even longer time (necessary to catch up with the economic level of the early transitional period) make about a quarter of a century that is necessary to "arrive" at the point we had started. And afterwards, as many years in order to reach 60-65% (calculations by Prof. Angelov) of the European living standards. A logical question is raised: whether the Bulgarian people could endure this, and if yes - is it historically and socially fair? According to Prof. V. Todorov, giving the specific conditions in this country, it is necessary to develop additional strategies besides the basic strategy (competitiveness - growth - living standard). Such strategies could accelerate efficiency of the basic strategy concerning living conditions in a short-term perspective, in the decade and a half to come.

Working out a Strategy for Competitive Restructuring and Development of the Bulgarian Economy during its EU Integration” (Prof. Asen Kovachev, Dr. Ec. Scs.) It is imperative to work out immediately a highly effective medium-term strategy for the development of the Bulgarian economy during the period 2005-09-12. The strategy should be focused on restructuring the economy as an aggregate factor for a productivity increase, first of all by multiplying interrelation effects of its changing structural parameters.

Challenges of Competitiveness and the Prime Function of the Bulgarian State (Senior Research Fellow Iliya Balabanov, Ph.D.) Contemporary world economic experience shows that companies and national economies with higher levels of competitiveness have greater social, political and macroeconomic stability (as compared to other countries), more favourable legal and institutional frameworks, better functioning capital, commodity and labour markets, better developed macro infrastructures and communications, labour resources of higher quality and better administration and legal services. An adequate social and economic policy of the state is fundamental for establishing and constantly improving the above multilateral conditions for an economic activity. This is why, the successful solving of issues related to conducting effective social and economic policy (according to competitiveness requirements and dynamic global realities and specifics of each national economy) is of paramount importance for achieving higher levels of competitiveness.

Competitiveness - Key Issue of Bulgarian Economy (Nikolay Nenkov, Vice Chair of the Confederation of Independent Trade Unions in Bulgaria (CITUB). CITUB has developed a memorandum aimed at pointing out and prioritising the measures for competitiveness enhancement. They could be summarised in the following groups: for stimulating innovations; for promoting export; for improving the business climate; for intensifying receivables, etc. The main conclusion is that joint activities with the state are necessary for increasing competitiveness in the context of the EU accession.

Invention and Innovation Factors for Enhancing Competitiveness of the Bulgarian Economy /distinctions, analyses and targeted proposals/ (Ass. Prof. Nikola Dimitrov, Ph.D.) In order to enhance competitiveness, it is necessary to set a priority for technological factors. Moreover, there is a positive correlation between the technological competitiveness, labour productivity (calculated on a GDP basis) and national income. The invention factor should be clearly differentiated from the innovation factor, when implementing the National Innovation Strategy, adopted in August 2004. The first factor concerns the development and expenditure for fundamental research and the second is related to research and development activities in business organisations. Most of the measures in the strategy are correct and well timed. Underestimated potentialities for technological innovations, financial parameters of the strategy, fundraising and institutionalisation of the management of the innovation strategy should be also taken into account.

Competitiveness Development of Bulgaria and its Geographical Position (Ass. Prof. Veselin Boyadjiev, Ph.D.) Bulgaria has always been dependent (although to a various degree) and will depend on the factor "geographical position". Its evaluation and utilisation is an important issue in the context of the EU accession. Some advantages of the geographical position were outlined (compact territory, which ensures short destinations of economic relations and migration, variety of borders, etc.), as well as some disadvantages: intensive process of shifting the centre of gravity of the EU toward Northeast with Germany, France, Italy and Great Britain remaining as locomotives, under-using the Danube river, problems with the illicit usage of the transport-geographical position of the country (drugs, weapons, trafficking in people, etc.).

The following speeches refer to the second group:

Towards a New Policy of Employment and Enhancing the Labour Force Competitiveness (Ass. Prof. Goran Bankov, Ph.D.) Taking into account serious demographic problems, aggravating unequal development of regions in the country, decrease in the educational and qualification level, declining health of the population, priorities for raising the quality of work force were outlined: accelerating the process of employment growth, development and implementation of active complex programmes for social and economic development of regions with high unemployment rates; drastic measures against the grey economy; improving reforms in secondary and higher education in compliance with the EU standards and requirements; establishment and development of a life-long learning system, as a priority measure for increasing labour competitiveness in Bulgaria.

Competitiveness of Bulgarian Education (Research Fellow Irena Zareva). Bulgaria is characterised by a relatively high educational level of the population, a competitive educational system and education, which is traditionally valued high. During the transition to the market economy, the economic and social crisis in the country has influenced rather negatively the functioning and development of the educational system, its quality and competitiveness. Despite positive changes in the educational sector during the past years, competitiveness faces some important challenges, which require targeted and active measures to overcome.

Preconditions for Enhancing Competitiveness of Science in Bulgaria (Senior Research Fellow Matyu Matev, Ph.D.) Science in Bulgaria is in an acute crisis. For the last 15 years efforts have been targeted at its survival. Highly developed and competitive economy is not possible without accelerated implementation of achievements of all scientific branches. It is imperative to reassess the position and role of science in the social and economic development of the country and to remove obstacles to its progress. Participation of Bulgarian science in the common European research area is a challenge. The speech was focused on financing of research activities as one of the major problems. It is a distressing fact that after 1996 the share of funds allocated for science does not exceed 0.6% of the GDP, which rates Bulgaria on one of the lowest places not only in the EU, but also in the world. In Bulgaria, researchers work in conditions of financial deficits.

Competitiveness of Bulgarian Economy (Microeconomic Aspects - I part)

Market Strategy and Competitiveness of Bulgarian Companies (Senior Research Fellow Radka Ileva, Ph.D.) The paper justified the crucial importance of the strategic market-oriented company policy as an important factor of competitiveness, the role of this factor in the forthcoming accession of Bulgaria to the EU and determined the degree of companies' readiness to respond to challenges in the new conditions. The role of the market strategy level and quality for successful competitive development of Bulgarian companies was analysed. Emphasis was put on the necessity to consider requirements, characteristics and tools of the strategic analysis, forecasting, planning and control in the light of changed conditions in which the companies were going to operate.

The following contributions were made in relation to the paper:

Innovation Activity - Main Generator of Competitiveness (Senior Research Fellow Rositsa Chobanova, Ph.D.) A thesis is justified that the innovation activity of enterprises is a main generator of competitive development of the contemporary economy. Issues, concerning basic challenges to competitive development (globalisation and new technologies), the condition of innovation activity in Bulgaria and possible solutions, were outlined in the speech. Overcoming the innovation deficit as a way towards competitive development is possible only within the framework of a new paradigm for a national innovation policy. It should preserve and develop the national expertise and knowledge by expanding domestic and foreign markets for Bulgarian innovations.

E-readiness and E-activity of Small- and Medium-sized Enterprises in Bulgaria (Associate Prof. Jelyu Vladimirov, Ph.D., Assistant Prof. Olya Harizanova, Ph.D.) Some characteristics of Bulgarian small- and medium-sized enterprises were presented as well as results of an empirical research on this topic made in 2004.

Reaching the Impossible - Two Case Studies from the Experience of Stara Planina Holding (Vasil Velez, Bulgarian Industrial Capital Association). The successful development of two daughter companies of Stara Planina Holding (M+S Hydraulic Pls., Kazanluk and Hydraulic Elements and Systems Pls., Yambol) was given as an example.

Competitiveness of Bulgarian Economy (Microeconomic Aspects - II part)

Competitiveness of Bulgarian Agriculture in the EU - Opportunities and Challenges (Senior Research Fellow Rumen Popov, Ph.D., Institute of Agricultural Economics, Senior Research Fellow I degree Nikola Vulchev, Dr. Ec. Scs.) The paper presented opportunities for and challenges to competitiveness of Bulgarian agriculture after the accession to the EU, resulting from the general conditions of membership and expected development of the Common Agricultural Policy. Conclusions were made on that basis for the agricultural policy of Bulgaria shortly

before and after the EU accession date. Medium- and long-term aspects of agricultural development were interpreted from the point of view of globalisation of the world economy, forecasts for food demand for a 30-year period and the developing model of the European agriculture. The following conclusions and recommendations were made: *firstly*, the establishment in the near future of productive and competitive, sustainable and viable agricultural sector is absolutely compatible with the Bulgarian membership in the EU; *secondly*, conditions and opportunities, offered by the Common Agricultural Policy, should be developed and used for equalising the conditions for economic activity in all member states in a reasonable timeframe; *thirdly*, contracted funds for supporting the sector should be spent mainly on developing such activities, where Bulgaria has comparative advantages, and for completing structural changes in Bulgarian agriculture.

The following contributions were made to the above paper:

Is Bulgarian Agricultural Export Competitive (Senior Research Fellow Yanka Slavova, Ph.D., Institute of Agricultural Economics)? The answer is rather complex and depends on external factors (agreements within the framework of the World Trade Organisation, Common Agricultural Policy of the EU, etc.) and internal factors (the position of the agricultural sector in the national economic structure, its priority, etc.) Distress symptoms of unstable competitiveness on international markets were analysed. One of the most important are: considerable reduction in agricultural production, which could not satisfy consumer demand on internal, as well as foreign markets; failure to fulfil the EU preferential quotas for most of agricultural products (excluding bee honey and sunflower seed); prevailing short-term market positions of export; high share of non-processed goods in the export structure; substantial part of agricultural export slumped to low price rates, which means: low competitiveness in terms of quality of exported goods, lower foreign exchange revenues as compared to competitors and unsatisfactory profits of exporters.

The Role of Education for Competitiveness Enhancement of Bulgarian Agriculture (Ass. Prof. Eng. Dimiter Dimitrov, Ph.D., Rector of Agricultural College - Plovdiv). Education is a process based on three pillars - incentives, knowledge and skills. Social environment sets requirements for flexible educational forms, ensuring continuous life-long learning process. The private sector in education should be developed, similar to other social spheres. Educational institutions should offer specialties that could prepare experts, who are capable to implement the complex development of rural regions in Bulgaria in the future.

The presented papers, contributions and lively discussions held during the conference are indicative of the right choice of the topic (competitiveness), its actuality and diversity, and its present and future importance to development of the Bulgarian economy.

Darina Ruscheva, Senior Research Fellow, Ph.D.