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## **BULGARIAN ECONOMY IN THE CONDITIONS OF EUROPEAN INTEGRATION**

The article examines problems of economic growth in Bulgaria in the context of globalization and EU membership. The typical features of the modern global economy are outlined, estimating the economic situation in Bulgaria. The author's vision is cited of the processes and problems that should be focused on accelerating economic growth.

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The state of the economy and social problems in Bulgaria has been largely discussed and written about recently. There is no topic that has not been focused in one way or another. Different opinions were expressed; multiple proposals, often conflicting, were made for solutions and transfers of responsibility from government to government, from party to party. The results were unsatisfactory. What are the reasons? What should be done? How should we overcome the unfavorable situation and create conditions for stable economic growth? These are the pending issues.

No doubt, to find the right answer an extensive analysis is required to identify and investigate problems, and to seek effective solutions on this basis. The need for such an analysis arises from the fact that Bulgaria, as a member of the European Union, should not only belong to the organizational and economic structure, but to the social structure of the European Community as well. It is necessary to create a society with multilateral activities based on established economic, social and political norms of social behavior in the so-called "international community". EU membership is a prerequisite, but not enough to solve complex social problems. Real perception and recognition of social norms and rules of the European society are required, raising the cultural level of the nation. Achieving this objective is associated with increased economic level and living standards.

For Bulgaria, as well as for other countries, the issue is of boosting the economic development as a factor in solving the problems of growth and related multilateral social problems. Along with the acceleration of economic growth, measured mainly by GDP, the national economy undergoes significant structural and other qualitative changes, directly related to the problems of growth. Many program documents have set goals for economic stability, sustainability, approaching the level of the economically developed countries. All this should be achieved under new conditions - trends established as a result of the ongoing globalization, specific steps for favorable and unfavorable conditions and changes expected in the near future. Changes must be made accordingly in the economic policy, the system and in the management tools.

The purpose of this study is to provoke a debate on the scientific basis of the problems of the national economy in order to achieve greater coherence and coordination of the goals, objectives and actions to resolve them.

### **Economic growth in the global economy**

Economic growth as a factor for social development and welfare is a problem encountered by each economy. Achieving higher growth rates depends on many internal and external factors. The influence of the external (international) environment has been increasing under the current large-scale globalization.

At this stage the ongoing development of the interstate and interregional integration has been growing in the last few decades, which is typical of the global economy. The most common definition of this process as "elimination of tariffs and non-tariff barriers to flows of goods, services and factors of production among a group of nations or parts of nations"<sup>1</sup> does not reflect the full content of today's global economic integration. The interregional and political nature of integration is expanding. Groups of countries in regional areas bounded together implement a common (regional) economic policy based on common objectives, regulatory and program documents. For their performance regional (federal) government authorities are set up, with administrative, regulatory and supervisory functions. The combination of economic and political integration is considered a factor for strengthening the economic impact of integration (Brout D, M. Rutat, 2007). Global economic integration continues to evolve in terms of territorial coverage, and in terms of economic structures. The assessment of Danny Rodrik (2000) is reasonable, that global integration is significantly limited and far from perfect now. Development and implementation of new forms and means is a problem, a decision pursued at national and regional level.

The main characteristics of the global economy, defining the conditions of development of our economy are summed up and presented by:

- Increased polarization of national economies according to the degree of their economic, scientific and technological development. Leading countries in economic terms, which together with a high technological level and larger scales are more stable, albeit at higher rates, have great economic, scientific and technological potential. This creates advantages for the less-developed countries, benefiting skilfully by them.
- Further lagging behind of less developed economies, increasing their dependence on developed countries; with their assertive role as providers of human and material resources and users of products manufactured by companies from economically developed countries.
- More clearly discernible division of the world economy and deepening regional integration; economic cooperation and interaction between countries in large areas with established area-specific economic, social and organizational characteristics; formation of regional economic alliances, regional organizational and management structures; implementation of regional economic policies, economic differentiation and competition between regions.

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<sup>1</sup> Business Dictionary, Internet.

- Increasing the organic relationship between economics and politics on international level; applying new political and economic forms and means of achieving economic interests.

- Technological disequilibrium, caused by the strong lagging of some countries and regions behind others; further economic domination of the countries with great technological potential; strengthening the importance of human factor, defined as the degree of knowledge, skills, organization and conditions for rational use. Crucial is the role of rapid and extensive absorption of technological innovations.

- Concentration of major economic, intellectual and technological potential in the large transnational companies, monopolizing the production, development and commercial activities.

- Expanding the influence of financial institutions on the global economy, increasing the sensitivity of the global economy to financial crises; enhanced effects of competition and opposition of major currency units; instability on international financial markets.

- Increasing the role and influence of international trade on the economic growth and development; continued closure of production and commodity flows in the sphere of large TNCs by broadening and deepening the horizontal and vertical integration of production; deepening the international fragmentation of production as a tool to use the advantages of individual countries and companies to increase efficiency.

- Deepening and sharpening the competition on the economic (production, resource, market) and technological base, developing the interregional and interstate competition, along with inter-company competition.

- Increasing the scale of economic crises and their consequences; the economic crises arising in specific countries and regions tend to become global crises; greater sensitivity to crises and slower recovery of the less developed countries.

- Economic discrepancy on global and regional scale, manifested in the form of intergovernmental financial obligations, shortage and uneven distribution of capital resources, and production capacity; a high degree of variation between countries in terms of employment and income, consumption and meeting the demand for goods and services.

- Deepening the social divisions in the developed and less developed countries, resulting in intensified conflicts and tensions between large social groups, which negatively affect economic growth.

- Dislocating the centers of economic activity and accumulating new economic potential under the influence of higher growth rates of Asian and other regions, changes in terms of balancing the world economy.

Under such conditions each country should settle the economic and social problems according to the position in global and regional rankings. These conditions, specified for the European Union are crucial to our country. EU membership creates certain favorable conditions, mainly financial and organizational, of which our country could benefit. They are influenced by the common requirements and restrictions aimed at achieving certainty and uniformity in the economic and social behavior of the

member states. Some of them are hardly achievable, inconsistent with national capabilities and specific interests of individual, mostly underdeveloped countries. In the long run, they should lead to convergence rates of economic and social development of countries on the basis of the technological and organizational progress. For Bulgaria this means accelerating growth and reducing the backlog through effective use of our own resources and the international environment.

The new conditions, objectives and problems should analyze economic developments and changes, in order to evaluate and adopt the experience of advanced countries and, on this basis, to establish long-term goals, to adopt and implement a long-term economic policy of the management. The established real conditions imposed at seeking solutions for economic growth should implement new approaches and tools. Attempts to make absolute one of the famous theories do not yield good results. Most often this leads to extremes – over-or underestimation of certain moments far away from reality. Each theory reflects specific conditions and situations. Business practice, based on the theoretical generalizations of experience, has to determine the guidelines for rational solutions to modern conditions.

### **Effect of global integration and EU membership on the Bulgarian economy**

Bulgarian economy operates and develops under the influence of global economic processes, processes in the European Union and domestic conditions, typical for this period. The growing dynamics and the emerging contradictions give rise to new and more complicated problems that should be decided promptly and effectively. Imperative is to achieve higher growth rates, which is the necessary basis for solving social problems.

The alignment process within the European Union raises the question of the international social integration within the region. It is based on the established historically accepted and on the newly adopted norms of behavior in the field of management, production, social life, to be observed by the member-states. The differences among countries determine the specific terms of their adherence to the so-called European Community. While in management and production sphere integration occurs under the influence of the uniform decisions and rules applicable within community, for the population this process is affected by the living conditions and characteristics of the household. In this respect, the differences among the countries are enormous. In Bulgaria, the very low income and standard of living of the population give rise to social problems and distrust. The social inclusion to the European Community, the establishment of European norms of social behavior, increasing the living standards similar to that of developed countries have been deferred and postponed to a distant future. The present stabilization process of the economy is performed on regulatory basis and largely at the expense of the population. The low-level of economic and demographic state, problems of structure, social culture, traditions and attitudes of the population proved to be

hampering. The psychological consequences of the chaotic transition to a market economy should also refer thereto.

The frequently repeated phrase "integration into the European Economic Area", is full of positive expectations, hopes and goals. Undoubtedly this process covers the objective needs of economic development in many European countries, which is especially important for the less developed states. But what is behind this process, what is needed for its successful development, what does it mean for each country and how can it join it? The answer to these questions is important for our country.

International integration has many interrelated aspects, based on economic, social, cultural and educational processes and activities. The degree of integration is estimated in these main directions. But the European Economic Area is neither uniform, nor static. There are significant differences among the countries. They join the union with their own social and economic situation, with their own problems and interests. Within the alliance they seek the most advantageous solution for them. This logically leads to problems and contradictions, which must be solved in general according to the common interests.

The EU integration is launched and implemented at significant differences among countries. Inter-state integration is a process carried out by means of consent, organizational unity and concord of actions. Problematic and controversial questions arise here, as well as conditions for conflicts provoked by the individual interests and goals. There is a great differentiation in the economic level. Laggards rely on their membership in the European Union to develop their economies and to approach the level of the developed EU members. EU leaders in economically developed countries are primarily responsible for the overall development to compete effectively with other regional bodies. They are forced to develop their economic potential, even at the expense of greater economic inequality among the countries in the EU structure. The successful development of the EU economy depends largely on the development of the economies of the leading countries. The other economies also contribute thereto with a smaller share. EU as a whole is interested in their economic progress, but each country is responsible to achieve such progress. Therefore, in addition to the EU aid the less developed countries should accelerate their economic growth with their own efforts, with more effective economic and social policies, higher activity and flexibility, using the advantages provided by the EU membership.

The integration in Europe and other regions of the world is a long-term process. It takes place in accordance with the objective conditions and needs, often unevenly. The concord and coherence of the countries' interests and behavior are advantageous for the integration. It means that along with common interests the management and the solutions must meet the interests of the integrating countries. But it also means more involvement and pressure to solve national and common problems.

Bulgaria is a law-abiding EU member state, accepting and implementing the imposed common requirements and restrictions. Its inclusion in the Euro Area is

pending - the transition to the single European monetary unit. The content line of the policies pursued by the European Union is clearly defined. Further interrelation (and dependence respectively) with European countries are carried out in the field of economics.

Can it be claimed that our country is a full member of the European Union? What are the economic benefits of the EU membership? Have they been implemented? How their fulfillment depends on national policy and administration? It is quite logical to raise such questions and to seek answers.

The responses are contradictory. Under the legal framework of the European Union, Bulgaria is engaged in the decision making process, although with a lower weight coefficient. It is able and tries to meet all the general requirements for all the member states. However our economic opportunities are rather restricted and the international environment is not quite favorable. The transition to market economy has not been completed yet. It is performed not in the best way, causing complex economic and social contradictions and problems. Most of the economic potential, created for the conditions of socialist integration was destroyed. The economy should be restructured under the new conditions.

The conditions for the formation of the new economy are unfavorable - administrative failure, corruption, high inflation rate, unclear economic policies, strong international competition, economic crises and insufficient support from outside. The horizon to reach the average economic standard of living for the European countries is moving away. This is the reason for the fluctuating, even negative evaluations.

EU membership has a stimulating effect both through economic aid and by imposing stricter administrative and economic discipline, but the effect, obtained in real conditions and internal contradictions is late, not meeting the expectations. The main reason is a lack of readiness to use the opportunities offered by the EU membership. This includes lack of administrative organization, absence of clear economic prospects and strategic objectives, insufficient organizational, technical and staff capacity to significant structural and technological changes, low level of project readiness and inconsistent decisions. This is manifested clearly in the current practice in absorption of EU funds.

New lines of political orientation affected the international economic relations of Bulgaria. EU membership imposed tendency for closer economic cooperation and integration with the advanced European countries. It is associated with the problem: "How a country with underdeveloped economy, with insufficient administrative and management maturity could be embedded in an economic system dominated by developed countries, well-structured organizational, sector and technological economy?" For this system, our country actually is still an external partner, in pursuit of own interests, especially economic progress - accelerating economic growth and solving social problems. Such a partner can be accepted, but not as equal. The European system will accept it insofar as it can be converted into new conditions and be useful. Such a partner must accept and fulfill the set

requirements in order to be incorporated in the system as rational as possible. In the current conditions the place of the Bulgarian economy in an integrated European economy should be found, which will create conditions for accelerated development prospects.

The European Union creates favorable conditions, but the system is not perfect. On the one hand the European Community is subject to strong external influences and contradictions arising from the ongoing production and market competition with other regional economic structures, the struggle for technological advantage, crises. On the other hand, there are internal contradictions and problems. A lot of organizational and management issues have not been resolved yet. The setting up of a unified management system with established authorities, functions and rules can not be considered completed. Within the Union there are contradictions arising from the concerns and interests of individual countries, exacerbated by economic and social inequality. There are no effective mechanisms of coordination of the interests and decisions of these countries with the Union.

There are specific EU forms of economic cooperation and competition arising from new conditions. The acceded less developed countries can develop their economies using their specific advantages due to the available natural and other conditions. Their opportunities for cooperation with leading manufacturers in the developed European countries are increasing. So they can benefit from the organizational and technological advantages of firms from these countries. However, this takes place in competition with other countries and is determined by the specific conditions and capabilities - production, technology, material and labor resources, management and organization.

The status and the further development of Bulgaria's economy is influenced mainly by the regional environment and economic relations with neighboring countries. Despite the advantageous climatic and geographical conditions, most of them have similar economic problems. Their aim is to become EU members in order to be integrated into the European economy, but at lower level specific to their economic organization and technology. Fragmented, poorly organized partnership, a small number of basic enterprises, delays in the area of technological innovation and scientific and technological development are typical. This limits the ability to more sensitive progress of each country and region as a whole through effective economic cooperation among them. Opportunities in this area exist. The problem is in strengthening economies and combining operations in areas where the countries' interests coincide. Membership in the EU creates favorable conditions in this respect.

As in other countries, Bulgaria's expectations for solving development problems, updating and expanding the economic capacity are based largely on foreign direct investments (FDI). Large-scale investments were monitored at the beginning of the transition period, mainly due to the available attractive facilities, acquired cheaply through privatization. Now, especially in times of crisis, the



amount of proceeds of foreign direct investment in Bulgaria has decreased to values that can not influence significantly. According to Eurostat international investment position of Bulgaria performs with the data: 2008 – EUR 34,880 million 2009 - EUR 35,569 million, 2010 – EUR 35,212 million. In a number of documents and decisions we still rely on attracting more large investors. Are these expectations realistic? Unbiased assessment does not give much hope. Pessimistic expectations are based on the lack of significance of the relative advantages that attract foreign investors to compete with other countries. In terms of resources and consumption attractive to foreign investors are: cheap raw materials and energy resources, disciplined cheap skilled labor and much cheaper low skilled labor, large market, possession of specific technological advances, R&D facilities. The truth is that in none of these aspects our country is uncompetitive enough to other countries, also aiming at foreign investment. As to the other requirements - stable and truthfully applicable law, political stability, taxation, absence of corruption, protection from unfair competition (including from the hidden economy) the level desired by investors and guaranteed by the state has not been reached yet. Comprehensive assessment is no reason to claim that our country has significant competitive advantages. To attract appropriate foreign investors, each of these areas should be improved considerably. We need long-term systemic targeted actions, implementing a National Programme and consistent policy for economic development and stabilization of the country to be better adapted to the actual conditions, where foreign investments can find their real place. The theory of endogenous economic growth clearly points to a need to create our own economic, human resources, technology and management potential. Here as well the government plays a major role to support and accelerate the required own potential.

A problem, arising in the context of European integration, which is essential for our economy is associated with the *investments by Bulgarian companies*. Current development has resulted in control of important sectors by foreign companies. This can be explained by the lack of accumulated capital in the country, the little experience in international competition, aggression and greater opportunities for foreign companies. A significant role played the deliberate policy to transfer the ownership to foreign companies against almost fictitious gains, conducted under external pressure and for personal advantage or to the benefit of the respective party. Logically, in such circumstances, the interests of foreign companies prevail over national interests. In practice this is confirmed by the shift of foreign capital to profitable sectors for them, by outflow of capitals and the insignificant share of reinvested earnings, by the occupation of the domestic market by foreign goods.

The policy encouraging foreign investors favor them more than the national investors. The fact has not been taken into consideration, that foreign investors are at much more favorable position. Compared to domestic investors, they have much more capital, better technology, experience and personnel, they are



backed up and supported by powerful transnational companies (TNCs), protected by state institutions. Under such conditions, they pursue a policy in the interest of their own economy. Experience from other countries shows that the potential positive effects of foreign investments, expected by us, do not work when a consistently targeted state investment policy is not carried out (Salvador B. and others. 2004). The unfavorable state of our economy is rather due to the inadequate use of the national resources - labor, land, scientific potential, savings etc., that can be overcome by stimulating investment by national investors.

One of the many problems that cause uneven economic development of the countries within the Union concerns the living standards. The EU integration implies a relative leveling of the economic and living standards of the member states. Under the current conditions, this process slows down. Expectations of a considerable change to improve the economy and solving social problems do not come true. New problems arise under the influence of crisis processes.

Adverse *social conditions* are now in Bulgaria. Low economic and living standards, the impact of restructuring in the transition to a market economy, inadequate administrative arrangements, unclear prospects, and unfavorable demographic processes have led to adverse developments in the social sphere. Our country is poorer in terms of capital and skilled labor force. The attitudes toward labor have become negative. Growing social stratification and, moreover, its negative impact on the economy. Economy, social level and demographic processes (and political processes) are interrelated in a vicious circle in which the negative effects chain is transferred from one process to another and falls on the people. Pessimism is growing. The data in Tables 1 and 2 show that expectations of reaching the level of developed countries, the so-called cohesion (and convergence) can not be realized in the near future. The expectations for "catching-up economic development" (Ivan Angelov et al. 2006) have not come true. Setting such targets, we must consider the results of studies, claiming that "... liberalization accelerates growth in high income countries, but more slowly in countries with lower income" (Eichengreen B. 2001). Also, the countries that create technological innovations and deploy them earlier have higher growth rates (Eaton, Kortum, 1999). The Convergence Programme for the period 2011-2014 is quite optimistic in terms of growth (the forecasted economic growth between 3.6% and 4.4% is calculated on real GDP), given that the comparisons refer to a period of a significant decline.<sup>2</sup> It's not a matter of pessimism, but of more realistic estimates and expectations. We can not be satisfied with the achievements to say that everything possible has been done.<sup>3</sup>

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<sup>2</sup> Republic of Bulgaria. Convergence Programme 2011 – 2014 (15 April 2011).

<sup>3</sup> The small share of GDP per capita is due to factors such as low technological level of production and output, unemployment of a large population, low wages, unregistered production in the informal economy. As to the intensity of labor employed in manufacturing, most often it is high.

Table 1

Gross domestic product per capita in purchasing power (PPP), EU = 100

Economies	Years										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Europe	100	100	100	100	100	100	100	100	100	100	100
Bulgaria	28	30	32	34	35	37	38	40	44	44	44
Romania	26	28	29	31	34	35	38	42	47	47	46
Germany	118	116	114	116	115	116	115	116	116	116	118
France	115	115	115	111	110	110	108	108	107	108	108
UK	119	120	120	122	124	122	120	116	112	111	112

Source. Eurostat data.

Table 2

Gross domestic product in EUR per capita

Economies	2009	2010
EU-27	23 500	24 400
Bulgaria	4600	4800
Romania	5500	5800
Germany	29 000	30 300
France	29 300	29 800
UK	25 300	27 400

Source. Eurostat data.

Differences between countries, especially Bulgaria, are quite large and still growing. Within the European Community process of intensive exchange of goods and services take place. At their core, they come from developed countries. Their prices are consistent with the incomes in these countries - salaries, social insurance, and social assistance. With these or similar prices the same goods are sold in less developed countries where incomes are several times smaller. The problem is compounded by the financial policy of monopolistic structures in those countries aiming at incomes similar to those in developed countries. The improper income taxes and penalties imposed by power authorities are also added thereto. The result is an increase of social inequality, indebtedness of the population and discontent. Inflation processes and high unemployment add a negative impact on real incomes and living standards. Prices, especially of imported goods shall be amended in accordance with the international situation, while updating the income linked to the resources of the state and businesses, as a rule is significantly delayed.

So outlined, the situation seems quite pessimistic. The governments most often blame the bad legacy of previous governments, regional and global crises.

Pessimism will grow if things continue like this. The key problems are organizational and financial. They are mainly due to the management causing a violent and disruptive transition to a market economy, the inability of the government to create the necessary favorable conditions, the irrational use of financial and other resources. The end result is economic, organizational and technological backwardness, that can not be overcome by our own efforts in the near future.

### **Development opportunities under the conditions of European economic integration**

The prospects for the Bulgarian economy are associated with the development of European economy and its place and role in the global economic system. The verification of the European economy as stable and growing will be of benefit for all member states. Their successful development and their contribution to the overall progress depend on their ability to integrate into this system and take advantage of the available benefits.

Each country relies on its own resources and capabilities and operates in its environment. The problem is how to use them rationally in the interest of its own economy. Under the current economic conditions in the EU system each Member State must organize and manage its economy in the best possible way. It means effective integration into the European economy and rational utilization of its own potential. The problem is to define and implement a *policy of economic development*, profiting from the available natural environment and human capital under the conditions of EU membership.

Bulgaria has scarce mineral resources. No new resources are expected to be discovered in quantities that will significantly affect the economy. Foreign companies have focused their attention on the more attractive natural resources (including energy), acquiring cheaply advantageous concessions of little benefit to the country. The agricultural production and the processing industries based on up-to-date plant-growing and animal breeding could be expanded, as they are currently underutilized, mainly because of organizational and financial problems. There are favorable conditions for tourism, but they have been developed rather spontaneously, affecting the performance. Industrial development is lagging behind due to the low level of technology, poor competitiveness, lack of capital, low levels of security. This in turn limits the ability to export products to European and world market. The corporate indebtedness is still high and causes difficulties. The expectations, based on the concept of development of small and medium enterprises as the foundation of the national economy have failed.

Development problems, caused by various factors, exist in all sectors. Successful solution is possible, if efforts are guided in the right direction and the available human and material resources are used effectively. This is a management task, considered within the scope of public authorities, professional and public organizations.

Restructuring of the economy under the new conditions is associated with economic, social and organizational problems, largely determining the business environment and conditions. What are the problems to be solved with priority? The theoretical and practical studies have come to the conclusion that "... common policies aimed at changing the basic principles are more important than specific policies aimed at attracting partial investments " and that the characteristics of the economic environment – infrastructure, local labor market conditions, communication systems, general macroeconomic and trade policies are some of the most important factors (Holger G., D. Greenaway, 2004).

At this stage essential for Bulgaria is the problem of *restructuring the economy*, for its effective branch and organizational setup, management and operation in a global market economy and EU membership. The membership in the EU and the processes of economic globalization, change the conditions and thus require changes in economic structures. The concept of *branch balance* of the national economy gained a new meaning. Branch balance and specialization of production could be referred to mainly within the European and world economy. In the field of industry a country like Bulgaria should seek cooperation with companies at high technological level of production. Such opportunities are created by the expanding practice of large companies for fragmentation of production. Production and markets are dominated by powerful multinational companies, determining the market conditions. Production-oriented cooperation with foreign companies (TNCs, etc.) is required by the concept of targeting primarily small and medium enterprises. For a country like Bulgaria the problem is to decide which are the sectors in the existing conditions, geopolitical and other factors that correspond best to the national interests and should be developed with priority, and how to stimulate their development.

In conditions of insufficient foreign investment the question arises of intensifying the investment activities of domestic investors. The existence of recognized national companies, among other beneficial effects, increases the absorptive capacity (the ability to implement) of the country in terms of technological innovations. The experience of Greece and Spain shows that foreign investors have no disposition to spread their technology and experience in other (local) companies (Dimelis. S., H. Louri, 2004).

While branches balance can be sought only within the EU, at national level the financial balance issues should be solved at the macro level, balancing income and expenditure of households and firms, the balance of the preparations, distribution and employment of labor resources, equilibrium and balance between the natural environment and natural resources.

In terms of EU membership new opportunities arise for foreign trade expansion and rationalization. Closer production cooperation will lead to an increase of commodity flows and will create opportunities for structured and quality improvement. For the Balkan region, there are favorable conditions within the regional integration, for mutually beneficial economic cooperation on the basis of industrial relations and trade. Their efficient use has been restricted by political and other sentiments. It

sounds optimistic, but actually overcoming such obstacles could be expected to result in economic cooperation relations similar to those established by the West European countries and positive quantitative and qualitative changes. Regarding the rest of the world, the globalization conditions imposed extension and intensification of foreign trade, seeking the most favorable positions.

*Financial incentives and assistance* to business is a factor for target reconstruction and economic development. It also created more favorable conditions for development of individual sectors and industries, encouraged business investments, strategic industries. The problem is the few available funds and the priorities for their allocation. Indisputable is the need to create a favorable priority infrastructure. But this should not be at the expense of other, not less important areas of economic and social activity. EU membership opens up possibilities for business support through targeted funds and initiatives. According to Eurostat in 2009, state support for specific sectors (agriculture and fisheries, manufacturing, railways, etc.) in EU-27 total 3.49% of GDP were allocated, Germany - 4.85% , UK - 7.93%, France - 1.25%. For Bulgaria, the data are: 2006 - 0,12%, 2007 - 1.38%, 2008 - 1.23% and 2009 - 2.15%, which indicates that in the recent years the practice of other countries has been approached. Financial incentives are also possible - through interest-free and low interest loans, tax relief, targeted cash funds and others that have been applied successfully in other countries.

By means of Structural Funds, including the Cohesion Fund, the EU regional policy aims at economic and social cohesion within the community. Their results depend on how fully and properly these funds are used. Estimates of current practice are not the best. Deficiencies are often cited, such as inadequate information, late application for participation, inadequate project and organizational readiness, misuse of funds. It affects the quality and implementation of projects and is primarily due to poor organization, awareness and control. The opportunities of the units specialized in R&D have not been completely utilized.

The creation and use of *labor resources* is essential. It is associated with many problems. High unemployment, poor skills, low labor and technological discipline, low motivation for qualification, retraining and low pay jobs and insecurity characterize the majority of inexpensive, low-skilled labor belonging to this category. There is a shortage of highly qualified personnel. A large number of prospective staff leaves the country, mainly because of poor pay and limited opportunities for realization and development. This determines the qualification and use of the workforce as a priority economic and social problem for the country.

The *human resources* (capital) is valued as an essential factor for development. But this is a complex problem, often limited to training in our country. Here arise the problems of content and level of training for profiling and use of established staff and encouraging them to realize their capabilities in the country.

The increase in the *technological level* in all areas - manufacturing, education, science, and lifestyle is the core of the economic growth. In our country the creation of

"knowledge economy" has often been set as an objective. Of course an economy, making full use of modern scientific and technical achievements, and build upon the foundation of high technology in all areas. Achieving this goal requires technology transfer from abroad. But moreover, as confirmed by the theory of endogenous growth, we should create our own research and development facilities with qualified personnel and modern technological equipment. The latest scientific and technological fields should be known, in order to assess what is necessary and appropriate for specific solutions, to create our own experience and technology, to train the personnel. This strengthens the role of our own, national research and development institutions. Their establishment and operation should be encouraged, closely bound by the needs of the real economy. The data in Table 3 show that everything is not all right in this respect. Average for the period 2000 - 2010, spending on research and development as a share of gross domestic product in the country was 3.9 times less than in the EU.

Table 3

## Expenditure on research and development (R&amp;D) as a percentage of GDP

Economies	Years										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU-27	1.86	1.87	1.88	1.87	1.83	1.83	1.85	1.85	1.92	2.01	2.00
Bulgaria	0.50	0.45	0.48	0.48	0.49	0.46	0.46	0.45	0.47	0.53	0.60
Romania	0.37	0.39	0.38	0.39	0.39	0.41	0.45	0.52	0.58	0.47	0.47
Germany	2.47	2.47	2.50	2.54	2.50	2.51	2.54	2.53	2.69	2.82	2.82
France	2.15	2.2	2.24	2.18	2.16	2.11	2.11	2.08	2.12	2.26	2.26
UK	1.81	1.79	1.79	1.75	1.68	1.73	1.75	1.78	1.79	1.86	1.77

Source. Eurostat data.

The degree of *security* is one of the essential characteristics of business environment. Investors are particularly sensitive to risk, accept it when they have certain safeguards and, when significant gains are expected. The conditions in our country are not favorable in this respect. Conversely, there are negative processes related to protection from unfair competition, legal structure and justice, the hidden economy, the financial system, the reaction of management in an economic crisis and more, which increase the level of economic risk and retain business investments. Indicative of this is the trend of accumulation of free funds such as savings in banks, rather than investment in business. The savings are usually increased under conditions of uncertainty as a guarantee against possible failures.

The security problems should be qualitatively resolved in time in order to stabilize the economy, to intensify the economic activity and to accelerate growth. Several studies discuss the impact of uncertainty on investments and growth.. In the publication of Ferderer (1993) statements are cited like "... uncertainty about the economic outlook is bad for investment", and "... uncertainty hanging over the economy like a black cloud". Brunetti A., B. Weder (1998) studied the influence of

institutional uncertainty on investment, asserting that among other factors the legal rules (Rule of Law), in their complexity, and corruption are most influential. For the 60 countries surveyed a negative relationship was established between aggregate investments and various measures of institutional uncertainty. The importance of the security issue was focused in the evaluations of the European Commission on the status and prospects of the European economy.<sup>4</sup>

The state's role in managing the economy has been discussed. Calls like "the state - out of economy," "less government in the economy" "relying only on market regulators" countered the other pole - "central government of the whole economy" and are not less harmful. The practice of the developed countries clearly shows that it is necessary the government, represented by its multilateral state apparatus, to participate in management and especially in helping the economy in certain situations. The behavior of governments in the U.S., Britain, Germany and France, and other countries over the last decade and especially during the crisis showed that timely and effective intervention of the state government can contribute to overcome the problems and economic crises.

The government support for domestic and foreign direct investment in economic and political security of our companies in their operations in other countries appears to be very important. The opportunities created by international economic and social organizations have been utilized effectively thanks to the government involvement. In the context of globalization and international integration each country should pursue its own international economic policy, consistent with domestic and international conditions.

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<sup>4</sup> The European Economic Forecast, European Economy, 6, 2011 focuses the increased insecurity over the last few years and the required reduction, estimating, that the negative impacts regarding the debt, the weak banks and the slow growth could result in the return of the recession of the European economy.



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