SHAPING THE IMAGE OF BULGARIA AS FDI DESTINATION IN SOUTHEASTERN EUROPE: THE COURSE AFTER 1989

METAXAS, Theodore¹
TSAVDARIDOU, Maria²

Abstract
The purpose of this article is to investigate the case of Bulgaria as a destination for attracting Foreign Direct Investments (FDI). An in-depth analysis provides the overall picture as far as the economic level and the development policies that the country followed after 1989, as well as the FDI and the level of the country’s competitiveness level highlighting/pointing out advantages and disadvantages. A formulated model of Bulgaria as an attractive destination for FDI is developed through this analysis. The paper concludes that Bulgaria may offer a friendly environment for establishing FDI but there are important issues/problems that concern the ability of the political power and capacity to design and implement development policies and the lack of urban infrastructures and technology which are major factors for attracting FDI. Yet, the overall effort to promote the image of the country as an investment destination for the period of 2007-2012 includes actions that could solve the above issues/problems or could be part of the solution for these problems.

Key words: territorial competition, country image, Southeast Europe, FDI, Bulgaria

JEL: F21, R11, O52

1. Introduction: Territorial competition and FDI attractiveness in the EU

The process of globalization is reinforced by the exploitation of technological advances in information and technologies for rapid and far-flung coordination and redistribution of economic activity and social and political relations (Markusen & Diniz, 2003). This “new competition” phenomenon is mainly translated to ‘territorial competition’ which has been an extremely interesting research area, since it has been related to dramatic changes in the economic power distribution. Following Cheshire and Gordon (1996) and Cheshire (1999) attitude, territorial competition has been identified as a procedure in which units are activated and operate at regional economic level, seeking to promote this economy as a ‘location’ for the development of economic actions, in competition (directly or indirectly) with other territories.

In the context of territorial competition, fundamental is the variable of FDI³ attractiveness⁴ (Parkinson 1991; Vazquez & Vadlamannati, 2009), which contributes to

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³ For statistical purposes, FDI is defined as the acquisition by an individual or an enterprise resident in one country of assets located in another (EU, 2000). FDI differs from local investment in that the locus of decision – making and sources of competitiveness in the former laid abroad (Lall, 2000).
regional development by increasing the capital stock and the productive capacity (Ioannides & Petrakos 1999; Iammarino & Santagelo 2000; Abdulai, 2007). Additionally, it has long been recognized that the benefits of FDI for the host country can be significant, including knowledge and technology transfer to domestic firms and the labour force, productivity spillovers, enhanced competition, and improved access for exports abroad, notably in the source country (Zacharov & Kusic, 2003; Vazquez, 2009).

Countries’ increasing efforts to promote themselves as investment locations complement the liberalization trend, in turn (Shotar, 2005). FDI not only links markets internationally, it also integrates production systems internationally (McMenamin & Hill, 2000:25). The empirical studies regarding the incentives of attracting FDI propose that the foreign investors choose the region which has the probability of higher rate of profit. The rate of profit is considered as a result of the combination of the characteristics of each region, the cost of productive factors, the size and the characteristics of local market, and the level of infrastructures (Bandelj, 2002; Basile, 2004; Kokkinou & Psycharis, 2007:106). Lucas (1993) supported that the total stability and the economic and social environment of a country determine to a large extent the attractiveness of a country as a host country. Head et al, (1995), Nachum (2000), Nachum and Keeble (2003) and He (2003) support that foreign firm’s agglomeration in an area influence on the decision making process, since it can accentuate the competition locally, having great impact on the competitiveness of the already existing firms. Lankes and Venables (1996) determine as incentives the size of market, the political and economic stability, the geographic proximity, the natural resources, the regulating environment, the access to other markets, and the low cost of specialized and unskilled work. Furthermore, Redding and Venables (2004) and also Cheng and Kwan (2000) examining the criteria for business establishment, conclude that business decision process related positively with the possible access to national and European markets and negatively with the production costs. In addition, several studies (Budryte, 2005; Desai et al, 2004; Devereux & Griffith, 2002; Candau, 2008) support that local taxes as well as a well balanced tax system in national scale and public policies, play a crucial role in attracting foreign investments. In addition other studies support the importance of transport cost and land use cost on firms’ decision making process for establishment (Harrington & Warf 1995; Zhu 2000). In New Economic Geography models, firms avoid to create new plants in areas with high costs (land, labor and transport) [Fujita et al., 1999; Disdier & Mayer 2004].

In this framework, places (towns, cities, regions and countries) have been, characterized by a plurality of efforts, to shape or to reconstruct their images, based on the analysis and evaluation of their distinctive characteristics (Johnson, 1995; McCarthy, 1998). The establishment of an attractive investment received great attention the last two decades (Christiaans, 2002; Stubbs et al., 2002; Seo, 2002). New territorial marketing schemes also orient both to image building and repackaging the ‘place product’ by emphasizing the uniqueness of local identity (Ashworth & Voogd, 1990; Kotler et al., 1990). Especially for South-eastern European countries and especially their cities, the transition periods have involved economic and social decline alongside the initial efforts invested in economic and social restructuring. Especially in the last decade, as the region

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4 According to Fabry and Zeghni (2006) attractiveness is a result but also a dynamic process, which reflects both the ability of the host country to build and manage its attractiveness and the multinational firms’ involvement in that country.
of Southeastern Europe, has stabilized and is approaching integration into the European Union, the new role of territories as promoters of post-industrial development and as places attracting investment in various well-known productions and activities, has been established (Metaxas, 2008; Vaquez, 2009).

2. FDI in Southeastern Europe: A review

Since the fall of the Berlin Wall in late 1989 great changes have taken place in the former socialist countries of Europe and the Soviet Union, the so-called ‘transformation’ (Illner, 1996). All countries, whatever their development level and historical background, have to host inward-FDI to stay competitive (Fabry & Zeghni, 2006). Liberalizing markets, allowing foreign goods and services to enter the market either through trade or direct investments, was one of the major aspects of transition (Bos & van de Laar, 2004). Transition and with it the development of the privatization process created new opportunities for foreign capital owners which resulted in an increase of FDI into SEE countries (Stanisic, 2008).

A number of studies focus on the development and the attractiveness of FDI in SEE countries (Hurst & Uppenberg, 2000; Iammarino & Pitelis, 2000; Lyroudi et al., 2004; Bitzenis, 2007; Wannoffel et al., 2007). Southeast Europe (SEE) is a region rich with opportunity and potential, experiencing significant improvements in terms of reforms, economic growth and foreign investment. Figures 1 and 2 present the total FDI inflows in SEE Europe (1996-2005) and % of GDP for 2004.

Figure 1

![Total FDI Inflows in Southeastern Europe (1996-2005)](chart)

Source: Central Bank Southeast Europe Investment Guide (2006:5)
* Note: Data for 2004 is preliminary, while for 2005 is a forecast

The EU accession process has significantly pushed investor interest to Bulgaria and Romania in 2003 and 2004 when both countries have reported record high FDI inflows. In the specific case of transitional countries, FDI inflow to SEECs develops in line with improvements in political stability and progress in transformation (Hunya, 2002; Iglesias, 2009).
Traditionally the major advantages of SEE region as investment destination are the significant size of the market, highly skilled and qualified labour force, good productivity and competitive costs, improving infrastructure, bilateral agreements for mutual promotion and protection of investments, bilateral treaties for avoidance of double taxation, etc. The largest economies in the region, Turkey, Greece and Romania, are expectedly holding the top places in the FDI ranking in terms of total EUR-denominated inflows (Ernst and Young, 2007) [Figure 3 in the Annex].

In the following session section the article focus on the case of Bulgaria as an FDI destination.

3. The case of Bulgaria

Bulgaria is situated in the South-Eastern part of the Balkan Peninsula. The country's population is 7.7 million people and its territory spans 110,912 sq.km. Bulgaria borders Greece and Turkey to the South, Macedonia and Serbia - to the West. The Danube River to the North is our natural border with Romania; the Black Sea is situated to the East. Bulgaria is in the center of a region, which is undergoing dynamic transition. Within 500 km of our capital city, Sofia (1.4 million people), a population of over 90 million lives in 9 countries that have recently embarked on their way to a market economy. This is a large market with a rapidly increasing purchasing power.

The collapse of the communist system in 1989 gave rise to a fundamental change in the development of the states of Central and Eastern Europe, including Bulgaria. Bulgaria’s economic and political landscape has undergone a drastic transformation over the last decade, however not to the point yet to meet all expectations in terms of progress and wellbeing. It was only in 1997 and after considerable delay that Bulgaria embarked on a comprehensive program of structural reforms aimed at establishing market economy (Giatzidis, 2004). On 25 April 2005 Bulgaria signed an Accession Treaty with the European Union and is already an E.U. member since January 2007 (Metaxas, 2008). For the last 5 years the Bulgarian economy has grown steadily at 5% on average, driven mainly by exports and investments (Southeast Europe Investment Guide, 2006: 43).
Being a country in transition and also as a candidate for membership in the European Union (EU) Bulgaria is obliged to realize considerable reforms in the whole socioeconomic structure (Sgurev, et al., 2005).

The government has made some efforts to step up the pace of privatization in 2000-2002, especially as regards large-scale deals, but progress is mixed. In early 2002 Bank Austria was chosen as the exclusive buyer of the last remaining state-owned commercial banks, Biochim; however, a final sale agreement is yet to be reached. Altogether about USD 800mn has been invested into the banking sector, but by this amount foreign affiliates acquired 70% of the banking assets. Low amounts of acquisition investments are mainly a problem for the national budget which would expect higher privatization revenues. The tenders for the Bulgarian Telecom and for Bulgartabac, the tobacco monopoly, are under way but their ending also remains uncertain. Finalizing these deals is crucial not only as a signal of the reform efforts undertaken by the government but also as a source of financing the budget and current account deficits. Moreover, in the absence of privatization revenue, the inflow of FDI markedly slowed down compared to previous years (Hunya, 2002).

3.1 FDI in Bulgaria

3.1.1 The period 1990-2007

According to Glaister and Atanasova (1998), Bulgaria has not been a model of FDI attractiveness, since the ending of the cold war and the liberalisation of Central and Eastern Europe post-1989. FDI in Bulgaria was comparatively low till the late 1990s, but the recent increase in FDI inflows reflects positive changes in the investment climate. The FDI boom started relatively late in comparison with other countries of the region. Until 1997, Bulgaria did not have a clear and precise legislation on FDI. Since the early 1990s, FDI are encouraged in the country despite internal difficulties and external shocks encountered in the transition to a market economy (UNCTAD Bulgaria, 2004:1). The volume of the FDI in the country is constantly growing thus reaching the impressive amount of 4,1 bln. euro in 2006 or 16,4% of GDP (Figure 4).

Figure 4: FDI in Bulgaria (1998-2006)

Source: Bulgarian National Bank

In October 1997, however, the Foreign Investment Act (FIA) brought the legal framework for foreign investment into full compliance with the accepted international

Figure 5: Types of FDI in Bulgaria

![Graph showing annual FDI inflows by type of investment (USD mln)]

Source: Southeast Europe Investment Guide, Bulgaria, 2007:36

Table 1: FDI flows in Bulgaria, by industry (1998-2008 in million euros)

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting and forestry</td>
<td>7.8</td>
<td>2.2</td>
<td>0.0</td>
<td>0.8</td>
<td>1.9</td>
<td>2.4</td>
<td>5.6</td>
<td>9.5</td>
<td>26.4</td>
<td>75.2</td>
<td>51.5</td>
</tr>
<tr>
<td>Construction</td>
<td>2.9</td>
<td>21.5</td>
<td>29.2</td>
<td>19.6</td>
<td>36.5</td>
<td>5.0</td>
<td>81.7</td>
<td>171.6</td>
<td>507.9</td>
<td>797.4</td>
<td>465.0</td>
</tr>
<tr>
<td>Education</td>
<td>-0.1</td>
<td>-0.3</td>
<td>1.7</td>
<td>4.9</td>
<td>4.7</td>
<td>2.6</td>
<td>0.0</td>
<td>-0.6</td>
<td>0.0</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>2.0</td>
<td>-4.9</td>
<td>-15.6</td>
<td>3.1</td>
<td>73.3</td>
<td>7.7</td>
<td>670.8</td>
<td>308.5</td>
<td>350.7</td>
<td>332.5</td>
<td>176.2</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>168.7</td>
<td>103.0</td>
<td>17.7</td>
<td>137.6</td>
<td>135.7</td>
<td>432.5</td>
<td>236.1</td>
<td>667.3</td>
<td>790.8</td>
<td>2112.5</td>
<td>1485.9</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2.7</td>
<td>0.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>
Before 2000, FDI was aimed at taking advantage of low labour costs, in line with an international division of labour where the more labour-intensive phases were produced in low labour cost countries such as Bulgaria. Most of FDI was privatisation-related. Disregarding a dip in 2001-2002, privatisation flows have remained fairly constant.

This means the entirety of FDI growth has come from expansion and Greenfield investments, which have been primarily market-seeking (Figure 5), while for the period 1998-2008, the FDI inflows by industry, concentrated especially on real estate businesses, financial intermediation, whole and retail sales and manufacturing (Table 1). According to Kolev (2010), almost 1/3 of the registered growth in FDI stock in the period 2005-2008 was due to this kind of FDI. Most real estate purchases were carried out by United Kingdom citizens, ranking the UK from ninth to fourth place among the most important investors in Bulgaria.

Although there have been some limited investments in particular sectors, Bulgaria has not been developing as an export platform. Investment totals have tended to be dominated by a few very large investments, with a lot of small and medium sized investments making up a low proportion of the total (Operational Programme 2007-2013, 2007:20). The main investors come up from Austria, Netherlands and Greece (Table 2).
Table 2: FDI in Bulgaria (1996-2006 in million euros)

<table>
<thead>
<tr>
<th>Country</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5.9</td>
<td>17.7</td>
<td>41.5</td>
<td>78.7</td>
<td>78.2</td>
<td>1046,0</td>
<td>166,4</td>
<td>210.9</td>
<td>719.8</td>
<td>720,0</td>
<td>447,8</td>
<td>2591</td>
</tr>
<tr>
<td>Netherlands</td>
<td>33.2</td>
<td>2.4</td>
<td>54.5</td>
<td>110,1</td>
<td>-11,2</td>
<td>90,3</td>
<td>36,5</td>
<td>216,6</td>
<td>365,1</td>
<td>47,5</td>
<td>668,2</td>
<td>1613</td>
</tr>
<tr>
<td>Greece</td>
<td>2.7</td>
<td>4.6</td>
<td>22.7</td>
<td>2.3</td>
<td>105.8</td>
<td>262.3</td>
<td>240,1</td>
<td>198.9</td>
<td>203,5</td>
<td>208,7</td>
<td>265,5</td>
<td>1517</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.3</td>
<td>24.5</td>
<td>33.4</td>
<td>29.7</td>
<td>-4.8</td>
<td>23.5</td>
<td>0,7</td>
<td>86.5</td>
<td>55,3</td>
<td>267.0</td>
<td>686.0</td>
<td>1208</td>
</tr>
<tr>
<td>Italy</td>
<td>0.7</td>
<td>2.1</td>
<td>2.3</td>
<td>7.2</td>
<td>379.5</td>
<td>163,9</td>
<td>25,1</td>
<td>87.8</td>
<td>83.3</td>
<td>94,7</td>
<td>59.0</td>
<td>906</td>
</tr>
<tr>
<td>Belgium-Luxembo urg</td>
<td>10.7</td>
<td>288,8</td>
<td>24.5</td>
<td>0.3</td>
<td>113,5</td>
<td>67.9</td>
<td>0,2</td>
<td>27.8</td>
<td>104.0</td>
<td>144,9</td>
<td>119.6</td>
<td>902</td>
</tr>
<tr>
<td>Germany</td>
<td>13.4</td>
<td>44.0</td>
<td>23.6</td>
<td>43.3</td>
<td>42.3</td>
<td>75.3</td>
<td>90.8</td>
<td>96.1</td>
<td>276.0</td>
<td>77.3</td>
<td>82.5</td>
<td>865</td>
</tr>
<tr>
<td>Cyprus</td>
<td>2.1</td>
<td>32.1</td>
<td>150,7</td>
<td>172,1</td>
<td>81.7</td>
<td>19.8</td>
<td>-8.4</td>
<td>104.9</td>
<td>88.9</td>
<td>14,2</td>
<td>109.8</td>
<td>768</td>
</tr>
<tr>
<td>USA</td>
<td>15.5</td>
<td>32.0</td>
<td>55.7</td>
<td>58.4</td>
<td>61.8</td>
<td>49.9</td>
<td>60.0</td>
<td>112.8</td>
<td>117.4</td>
<td>57.6</td>
<td>92.4</td>
<td>713</td>
</tr>
<tr>
<td>Total</td>
<td>137,3</td>
<td>570,1</td>
<td>605,0</td>
<td>866,3</td>
<td>1103,0</td>
<td>903,4</td>
<td>980,0</td>
<td>1850,5</td>
<td>2727,5</td>
<td>2326,0</td>
<td>4015,0</td>
<td>16084</td>
</tr>
</tbody>
</table>

Source: National Bank of Bulgaria / Greek Embassy in Sofia

The first period, until 2000, some 90 per cent of all FDI came from 28 large investors. The two biggest investments were in the financial sector. The largest one, US$ 307.57 million, was made by Italian bank Unicredito for the purchase of Bulgaria's leading bank, Bulbank. The second biggest deal involving a foreign investor was the sale of the United Bulgarian Bank (UBB) to the National Bank of Greece for US$ 76.09 million (Bulgaria Investment Profile, 2001:9). For 2004, FDI amount to USD 1,525 millions, showing an increase by 55% compared to 2002. In the course of the years, the spatial localization of FDI in Bulgaria has followed a steady model tailored to match the foreign investors’ preferences for regions, which were been strongly urbanized, with well-developed infrastructure, qualified human resources and easy access to areas with services and manufacturing facilities. This choice is related to the need to establish modern manufacturing plants, as the industrial infrastructure inherited from the time of Communism is rather obsolete and also reflects the reluctance of the Bulgarian authorities to press ahead with privatisation in the early stages of the transition process.

Furthermore, many entrepreneurs decided to produce in Bulgaria to take advantage of low labour costs while profiting from the country’s tradition in specific sectors such as clothing and textiles and food and beverages (Competitiveness Report Bulgaria, 2007:6-7). About 60% of the FDI in the country are concentrated in the South-West region,
including about 50% in the capital city. In the rest of the regions, the share of foreign capital does not exceed 10% of the national total, with the exception of the South-East region (12%). An exclusively low volume of FDI was been registered in the North-West region – 2.6% (Operational Programme ‘Regional Development’ 2007-2013, 2006:25). Table 3 presents the regional distribution of FDI inflows at the top five and bottom five regions in Bulgaria. According to National Statistical Institute (NSI) in 2008, 62.1% of FDI stock in non-financial sector was concentrated in the capital, Sofia, and the share of the five most attractive regions for foreign investors (Sofia, Varna, Plovdiv, Bourgas, Sofia Region) of the 28 regions in the country was 82.5% of the total stock.

Table 3: FDI regional distribution in Bulgaria for 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Share in FDI stock</th>
<th>FDI per capita (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top five:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sofia (city)</td>
<td>62.1%</td>
<td>9383</td>
</tr>
<tr>
<td>Varna</td>
<td>8.3%</td>
<td>3396</td>
</tr>
<tr>
<td>Plovdiv</td>
<td>4.9%</td>
<td>1318</td>
</tr>
<tr>
<td>Burgas</td>
<td>3.5%</td>
<td>1586</td>
</tr>
<tr>
<td>Sofia (county)</td>
<td>3.5%</td>
<td>2595</td>
</tr>
<tr>
<td>Bottom five:</td>
<td>0.6%</td>
<td>*</td>
</tr>
<tr>
<td>Silistra</td>
<td>0.2%</td>
<td>241</td>
</tr>
<tr>
<td>Vidin</td>
<td>0.1%</td>
<td>208</td>
</tr>
<tr>
<td>Montana</td>
<td>0.1%</td>
<td>144</td>
</tr>
<tr>
<td>Kyustendil</td>
<td>0.1%</td>
<td>202</td>
</tr>
<tr>
<td>Jambol</td>
<td>0.1%</td>
<td>83</td>
</tr>
</tbody>
</table>

Source: NSI of Bulgaria, Kolev (2010)

In recent years, foreign interest has also been shifting to benefiting from a fast-growing market with a safe business environment. The strong relevance of FDI in manufacturing is shifting gradually to the service sector. FDI in Bulgaria has originated mainly from within the EU – more than 75%. Of particular interest is that Greece (the only EU country that neighbors Bulgaria) has invested close to a quarter of a billion US dollars every year for the last four years (Totev, 2005).

Following World Bank Report for Bulgaria (2008:3), in 2007, enterprises and other entities in the retail trade and other service sector accounted for about one-third of expenditures on the acquisition of fixed assets—up from about 27 to 29 % of expenditures at the beginning of the decade. Manufacturing was less important accounting for about 20 percent of expenditures. In comparison, manufacturing firms accounted for between about 24 and 27 % of expenditures between 2000 and 2002. However, because fixed investment has increased so rapidly in monetary terms, total real expenditures have increased in manufacturing even though its share of investment has fallen. Expenditures by firms in the real estate, renting and business activities sector have increased as a percent of total expenditures from about 4 to 5 percent in 2000-2001 to about 13 to 15 % in 2006-2007.
3.1.2 Empirical studies

Recent studies have shown the existence of a variety of factors that constitute criteria for foreign direct investment establishment in Bulgaria. For instance, In July 2000 KPMG carried a survey among 230 companies, including 140 largest investors, due to FIA (Foreign Investment Agency). The survey included two issues - profile of the foreign investor, and investment conditions in Bulgaria. Foreign companies say that their main motives for investing in Bulgaria are: the existence of established relations with regular customers from the region, the market potential, the geographical position of the country and the existence of a skilled labour force and low labour costs as a part of the total production cost (KPMG, 2000; Jordanova, 1999; Iankova & Katz, 2003). Furthermore, a research carried out in business services that were created after 1996 in Bulgaria, focusing on the regions of Varna and Bourgas, shows that the geographical position of the cities and their industrial characteristics were the main criteria for attracting these businesses (Kolarova, 2003). In addition an overall view of Bulgarian main advantages and disadvantages, based on Bitzenis research (2004), present Hadjit and Moxon-Browne (2006) focusing on the role of corruption, the legal system and the organised crime. Finally, a very recent research among 64 foreign companies was implemented by Bitzenis (2007), regarding the determinants of FDI in Bulgaria during the post-communist 1990s. Among others, the findings of this research showed the significance of geographical proximity as well as the importance of low labour cost for export-oriented companies, similar results with Iammarino and Pitelis (2000). Furthermore, the findings award the importance of cultural closeness together with the importance of strong historical links (Bitzenis, 2007). Finally Bozhilova (2010) examines the dynamic between the process of Bulgaria’s European Union accession and the flow of FDI to the country in its industrial base. Table 4 summarises some of the above studies and their analysis.

Table 4: Some Theoretical and Empirical Studies of FDI in Bulgaria

<table>
<thead>
<tr>
<th>Studies</th>
<th>Aim</th>
<th>Analysis</th>
<th>Main variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glaister and Atanasova (1998)</td>
<td>Provision of a descriptive account of the nature and pattern of FDI in Bulgaria, and the importance of FDI to the privatisation process in the country.</td>
<td>Case studies of FDI companies in Bulgaria</td>
<td></td>
</tr>
<tr>
<td>KPMG (2000)</td>
<td>Examination of factors of significant importance for running the company’s local operations; and critical factors for future foreign investments.</td>
<td>Empirical results, questionnaire, Statistic analysis</td>
<td>21 different variables</td>
</tr>
<tr>
<td>Sample: 230 FDI companies in Bulgaria</td>
<td></td>
<td></td>
<td>(Skilled labor, Stable political environment, Availability of capital equipment, Cumbersome bureaucracy, crime etc.)</td>
</tr>
<tr>
<td>Iammarino and Pitelis (2000)</td>
<td>Examination of location choice criteria of Greek FDI in Bulgaria and Romania</td>
<td>Empirical results, econometric probabilistic</td>
<td>Type of FDI, Control mode, Country, Industry,</td>
</tr>
</tbody>
</table>

Bulgaria is the third most-attractive destination for FDI in SEE after Turkey and Romania, according to the Southeast Europe Attractiveness Survey 2008, compiled by the independent market researcher CSA at the request of Ernst & Young. The survey draws on the answers of more than 200 top executives investing worldwide and their appraisal of criteria such as telecommunications infrastructure, quality of life, access to financial investors, transport and logistics infrastructure and social climate (Ernst and Young Southeast Europe Attractiveness Survey, 2008). Figure 6, in the Annex, present the position of Bulgaria (in %) regarding general attractiveness of SEE countries and Figure 7, in the Annex, especially for business establishment. In both cases Bulgaria is ranked 3rd after Romania and Turkey that are the leaders of FDI interest in SEE zone.

4. Bulgaria Competitiveness: Rankings, advantages and disadvantages

The competitiveness of the Bulgarian nation has increased in view of its integration to the European Union and its market economy. Becoming competitive is one of the criteria for its integration to the European Union (Dimitrov and Dencheva, 2000). According to World Investment Report 2007 of UNCTAD, Bulgaria ranked at the 7th position among 141 countries globally, concerning FDI attractiveness for 2006. Bulgaria ranked after Luxembourg, Hong Kong, Surinam, Island, Singapore and Malta, while is
the 3rd among E.U member states and 2nd among Eastern European countries after Estonia (Greek Embassy of Sofia, October 2007)

In 2007 Bulgaria has largely kept its position compared to the previous year, but its business efficiency has declined. From the 42nd place that Bulgaria occupied in 2006, it has fallen to 54th place in terms of business efficiency. Meanwhile, the country’s overall economic performance has improved. With regard to infrastructure Bulgaria now ranks 41st (World Competitiveness Yearbook, 2007) [Figure 8].

Figure 8: Competitiveness Landscape, Bulgaria 2007 ranks 41st among 55 Leading Economies

This trend raises special concerns since business, compared to the government sector, is supposedly better and faster in adapting to competitive pressures and market fluctuations. Therefore, special focus should be put on microeconomic policies designed to improve the business environment, which are defined as the main short-term challenge to Bulgaria’s competitiveness. These policies should prioritize reduction of administrative discretion, bureaucracy and corruption, strengthening personal security and the protection of private property rights, accelerating investment in infrastructure and energy efficiency, promoting innovation, and human capital development through employee training, increasing worker motivation, etc. Bulgarian enterprises, especially the small and medium ones have continuously grown over the last years in terms of turnover, added value, jobs and export. They constitute 99% of all the enterprises in the country, cover 73% of turnover and generate 59% of the added value of private undertakings. About 60% of the lasting assets of these undertakings are with SMEs. The employment rate for SMEs has grown at a greater pace as compared to general employment growth of economy and as compared to employment in the big cities. The accession of Bulgaria to the EU at the beginning of 2007 granted SMEs new opportunities and new challenges to entrepreneurs. One of them was the efficient absorption of EU funds which raised the competitiveness of Bulgarian enterprises. In this connection a study was carried out to assess the knowledge
and planning preparedness of the enterprises in the second most developed economic region in Bulgaria, the South Central Region. The Operational Programme “Development of competitiveness of Bulgarian economy 2007-2013” was of key importance for the efficient and appropriate participation of SMEs in the absorption of EU Structural Funds. The programme contained the basic parameters of the European Fund for regional development in the field of innovation and competitiveness in Bulgaria. Knowing the opportunities and challenges that SMEs in Bulgaria face, including work with EU Funds was a necessary prerequisite for optimal planning and efficient impact of structural funds in the country (Mihova & Pavlov, 2008).

The competitiveness report highlights ‘corporate governance’ as a key area in that respect. Bulgaria needs to work on business ethics, adherence to regulations and contracts, management attitudes towards investment in technology and innovation, expenditures on personnel training, effective marketing, and, not least, companies should further explore the opportunities for stock market financing of investment.

According to the Ernst & Young Southeast Europe Attractiveness Survey (2008), Bulgaria holds the 2nd most attractive position both in terms of labour cost (19%) and corporate tax (12%) among all SEE countries. Regarding the future expectations of investors for Bulgaria, according to the same survey, the country will manage to ensure the further improvement of transportation and communication infrastructure (29%), the establishment of a more stable political environment (27%), the compliance with the European economic regulatory standards meet with the European economic regulatory standards (25%), the implementation of a more flexible and simple administrative procedures (23%) and increase the level of the quality of life (20%). In addition, according to Table 5 Bulgaria has competitive advantages among SEE countries regarding corporate tax and labour cost, while after Romania and Turkey receives a great positive impact of FDI jobs creation for the period 2001-2006. In other words the existence of FDI is linked up with special investment interest while the establishment of FDI contributed positively to decrease the unemployment.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Leading FDI sector/ function</th>
<th>Relative competitive advantage within SEE</th>
<th>FDI jobs creation 2001-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>Manufacturing, consumer goods</td>
<td>Labour skills</td>
<td>6,440</td>
</tr>
<tr>
<td>Greece</td>
<td>Headquarters</td>
<td>Quality of life, R/D availability and quality, infrastructures</td>
<td>2,500</td>
</tr>
<tr>
<td>Romania</td>
<td>Manufacturing, logistics, call center</td>
<td>Labour skills</td>
<td>42,800</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Energy and transportation</td>
<td>Corporate tax, labour cost</td>
<td>17,500</td>
</tr>
<tr>
<td>Turkey</td>
<td>Manufacturing</td>
<td>Domestic market, labour flexibility</td>
<td>28,400</td>
</tr>
</tbody>
</table>

Source: Ernst & Young Southeast Europe Attractiveness Survey (2008) [200 responders]

UNCTAD’s Global Investment Prospects Assessment show that the attractive sectors are: ICT, energy production and distribution services, production sector – electronics and electro-techniques, machines and metal processing, etc. The conclusions correspond to
the ones from the Deloitte and Touche Report (elaborated under the request of Ministry of Economy and Energy in 2005) but also the Ernst & Young that reported above), for identifying sectors with biggest investment potential in Bulgaria (Operational Programme 2007-2013, 2007:26-27). However, they are not sufficient grounds for prosperity in the long run and could do little to ameliorate the negative effect of the poor total private sector productivity or the skill shortages in some key sectors (CSD, September 2007). To preserve the leading positions, the needs of the world investment flows should be taken into consideration.

Finally, on this last section will be quoted by data from the Global Competitiveness Report 2010-2011. These data points out the advantages and disadvantages of Bulgaria as an investment destination while a primary research by the Forum’s Centre for Global Competitiveness and Performance (Global Competitiveness Report, 2010-2011:57-58) presents the main obstacles that the country faces in order to become an attractive FDI destination. According to this study, in order to achieve a sample of sufficient size to be included in the dataset, the Forum’s Centre for Global Competitiveness and Performance works closely with a network of over 150 Partner Institutes that administer the Executive Opinion Survey in their respective countries. They are chosen because of their capacity to reach out to leading business executives as well as their understanding of the national business operating environment. In the case of Bulgaria the most problematic factors of doing businesses presented on Figure 9.

Figure 9: Main problematic factors of doing business in Bulgaria

![Figure 9: Main problematic factors of doing business in Bulgaria](image)

Source: Global Competitiveness Report 2010-2011 (p. 110)

Figure 9 shows that the two core problems of business in Bulgaria are corruption and access to financing. Both these factors are crucial for FDI attraction. Along with the data

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6 From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between (Likert scale: 1 max, 5 min). The bars in the figure 9 show the responses weighted according to their rankings
Metaxas, T.; Tsavdaridou, M.  *Shaping the Image of Bulgaria as FDI Destination in S.E. Europe*

of figure 9, there are evidences that reveal the main advantages and disadvantages of Bulgaria as a destination among the global competitive market.

The following conclusion comes from the analysis of Table 6:

### Table 6: Main advantages and disadvantages of Bulgarian economy

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Factors</th>
<th>Advantage (ranked &lt; 50th position)</th>
<th>Disadvantage (ranked &gt; 50th position)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions</td>
<td>Strength of investor protection</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transparency of government policymaking</td>
<td>130</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Organized crime</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>Financial Market development</td>
<td>Legal rights</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Affordability of financial services</td>
<td>111</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Fixed telephone lines</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mobile telephone subscriptions</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quality of overall infrastructure</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quality of roads</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td>Macroeconomic environment</td>
<td>Government debt</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>Internet users</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Broadband Internet subscriptions</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internet bandwidth</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Availability of latest technologies</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firm-level technology absorption</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>Utility patents per million population</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td></td>
<td>University-industry collaboration in R&amp;D</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Goods market efficiency</td>
<td>Trade tariffs</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total tax rate</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of procedures required to start a business</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prevalence of foreign ownership</td>
<td>102</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business impact of rules on FDI</td>
<td>126</td>
<td></td>
</tr>
<tr>
<td>Business sophistication</td>
<td>State of cluster development</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extent of marketing</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Global Competitiveness Report 2010-2011 (p. 111)
Firstly, Bulgaria cannot be claimed as a powerful investment destination because the overall macroeconomic condition is characterized by important disadvantages. For instance, the infrastructure and technology sectors are parallel investment incentives for establishing FDI (Vickerman, 1996; Wheeler & Mody, 1992; Doutriaux, 2003; Doutriaux & Barker, 1995; Fuller et al., 2003). Second, other drawback factors are the lack of ability of the public and political authorities (Fuller et al., 2003; Metaxas, 2011), social factors and the existence of organized crime (Hadjit & Moxon-Browne, 2006; Petrunov, 2006). In spite all the negatives aspects, Bulgaria holds some positive elements such as legal rights for business, government debt, trade tariffs and the total tax rate.

5. Investment Promotion Strategy and a proposed investment image for Bulgaria

The Investment Promotion strategy has already been implemented during the period 2008-2013 and envisages specific measures and activities in seven priority directions: improvement of the general administrative and regulatory environment; development of the technical infrastructure; enhancement of the quality of the labour force; improvement of the financial environment from the investors' perspective; investment marketing; providing support for investment in innovations; developing the regional investment promotion policies; regional policy for integrated promotion of investments and employment in the underdeveloped regions and improvement of the business infrastructure.

The main goal and timeline of the Investment promotion strategy are in line with the goal of the Lisbon Agenda and aims to increase the competitiveness of the Bulgarian economy and to achieve a stable and steady economic growth through investment promotion.

Taking into consideration the whole analysis above we proposed an investment image conceptual model for Bulgaria. The general hypothesis is that each country wishes to become competitive in order to attract FDI. The total image of each country as a ‘final provided good’ based on its distinctive characteristics and the capacity of decision makers to promote and support this image effectively to the potential target markets, in particular FDI. On the contrary, FDI has as an aim and prerequisite to establish business in a competitive country.

In the case of Bulgaria, we proposed that the current image of the country does not provide to the country a brand name at the moment, but it can be attractive especially for ITC and commercial/distributional sectors. This image has to be promoted through the Marketing/ Investment Strategy of Bulgaria according to the already established programme 2008-2013. Figure 10 shows the whole strategic process of Bulgaria image creation and how it can be promoted effectively to the potential target markets (i.e. FDI).

The image building of table 10 is separated in three parts. The first one includes steps A and B that is the host place ‘Bulgaria’ and the identification of advantages based on country’s distinctive characteristics. The second part includes steps D and E that is the promotion and support of Bulgaria’s image, through Marketing plan and the potential target markets of Bulgaria. The third part is step C that is the creation of Bulgaria image, as a ‘final provided good’. What is the importance of this proposed model? This model tries to explain that the creation of image in order Bulgaria to become an FDI competitive destination, is a combination of Bulgaria distinctiveness (based on internal environment analysis) and Bulgaria strategic and marketing planning (focused on external environment analysis) in order to proceed the potential target markets (FDI).
7. Conclusions

The improving performance of the Bulgarian economy, regained political and regional stability and the acceleration of the privatisation process are the factors behind the improvements (Bulgaria Investment Profile, 2001:4). The investment potential of Bulgaria is high and EU entry has certainly increased the attractiveness of the country. The first data available for 2007 confirms some positive trends in the economy, certainly enhanced by EU membership, but also reveals some concerns related to trade deficits and FDI flows (Biscevic, 2007).

However, Bulgaria still has a low profile in terms of investor awareness, and image-building activities should promote specific areas of competitive advantages. To capitalize on herding and clustering behaviour, investment-generating activities should promote the country as suitable destination for investment in certain sectors.

The aim of this paper is to formulate the abilities of the country to develop an attractive image as an investment destination based on the general course of the country and official data and research which were selected after 1989.

We will support that the added value of this research is the effort to connect existed data with the future profile of the country and its development in the European investment environment.

Through an exhaustive analysis of the available data the paper managed to develop a theoretical model which stresses the special characteristics of the country and gives the image of Bulgaria integrated as an investment destination mainly on ITC and commercial-distributional sectors. Also it promotes the country’s image through the Marketing / Promotion Investment Strategy Programme: 2008-2013, in order to successfully diffuse it to potential investors. According to this point of view, this research, besides its contribution to the existed bibliography it supplements theoretically the existed researches adding the element that constitutes the effort of the country to a strategic planning and promotion as an attractive investment destination in a European level.

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Annex on line at the journal Website: http://www.usc.es/economet/acid.htm
Figure 3: Central and Southeast Europe comparison by location choice criteria

![Central and Southeast Europe comparison by location choice criteria](image)

Source: Ernst & Young Southeast Europe Attractiveness Survey (2007) [200 responders]

Figure 6: Bulgaria attractiveness in general in SEE zone

![Bulgaria attractiveness in general in SEE zone](image)
Figure 7: Bulgaria attractiveness particularly for business destination in SEE

Source: Ernst & Young Southeast Europe Attractiveness Survey (2008) [93 responders]