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EUROPEAN DIMENSIONS OF BULGARIA'S INDUSTRIAL POLICY

During the last two years the European economy, slowly and with great effort, has been recovering from the most severe economic and financial crisis of the last century. Industrial production plays a central role in this process. Namely, industry is the economic branch that impacts and provides development opportunities to the rest of the economic sectors.

It is no coincidence that there are frequent discussions on the revival of industry and its leading role in the economies of the European states. Besides, the document „Integrated Industrial Policy for the Globalisation Era”, adopted by the Commission in 2010 as part of the Europe 2020 Strategy, was updated¹.

This laid the foundations for the renewal of the European industrial strategy and the development of a uniform European industrial policy. Its main emphasis is raising awareness of the fact that a stable industry is of significant importance for building a rich and economically viable Europe.

The problem of developing a strong industry is not new to Bulgarian economy. As early as the beginning of the 20th century, a large part of the leading economists and politicians in the country asked themselves a number of questions regarding the role and place of industry in the economic structure of Bulgaria². At the beginning of the new century, the debate regarding the chosen path of economic development is too painful and pressing. Given the background of tumultuous events at the end of the 19th century, this choice is fully justified and understandable. The argument revolved around the choice between agriculture and industry, economic openness or protectionism. In the end, there is no single and definitive answer to all these questions. In a way, all our economic history to this day has not been able to provide a conclusive solution.

1. Bulgaria's industrial policy throughout the 20th century

The peculiarities and vicissitudes of Bulgaria's economic history provide the grounds for a certain periodization of Bulgarian industrial policy. The measure for such differentiation is the economic management system at work during separate stages.

On this basis we may isolate the following primary periods:

1. First period – from the country's liberation to 1944.
2. Second period – from 1947 to 1989
3. Third period – after 1990

The first period may easily be called „initial” with regard to the emergence and formation of Bulgaria's industrial policy. Despite the preserved majority of agriculture in the common economic structure, Bulgaria's industry was developing at a significant pace. A number of new factories were built in a short period of time and in 1911 the country had 345 factories with a total of 15 000 workers.

The official economic policy played an important role for achieving these results. The first written rules, regulating industrial production date as far back as 22 December 1893 – The National Industry Development Act³, which obliged all state officials and the army to wear clothes and shoes made in Bulgaria. The Homeland Industry Stimulation Act⁴ was passed two years later in 1895 and promulgated on 28 January. It introduced a number of relief measures (tax exemptions, duty-free imports, free building terrains, reduction of transportation charges in the railways, privileges in state procurement, etc.) for Bulgarian industrial factories. With the passing of a legislation package in 1905⁵, the first integral framework of industrial rules was enacted. Laws for industry stimulation, duties and patent tax on drinks and sanitary oversight for foods and drinks embodied the state control in different industrial branches.

The Balkan Wars and World War I played an important role in the industrial development of the country. On the one hand, they almost entirely destroyed Bulgaria's economy, but on the other – they led to a significant increase in the demand for goods and food, which provided favorable conditions for a new economic boom.

The state's economic policy was entirely adequate in these circumstances. State regulation of foreign exchange transactions and the introduction and increase of specific duties for groups of goods were a precondition

¹ COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A Stronger European Industry for Growth and Economic Recovery <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0582:FIN:BG:PDF>

² Boev, B. Journal of the Bulgarian economic society, 1911 book. 10, pp. 699 – 700.

³ http://212.39.92.39/e/prosveta/istoria_11/40.4.html.

⁴ State Gazette №22, 28 January 1895

⁵ Вж. Владигеровъ, Т. Цит. произв., с. 43 – 46.

for economic revival. Bulgaria's economy was on the undeniable economic upswing, which reflected in the zero inflation level of 1923.

The passing of the Homeland Industry Stimulation Act in 1928 was a continuation of a successful industrial policy. It provided duty-free import of equipment and machinery that was not produced in Bulgaria, free state and municipal lands granted for the construction of factories, reduction of 25% to 30% of the railway tariffs, exemption from some taxes and fees aimed at modernization of production. This law encouraged small-scale industrial enterprises rather than large ones⁶, but it did not deliver the expected results. From the beginning of 1929 to 1934 the country's economy was in crisis. At precisely this time, monopolization processes in the industrial sector gained momentum, which required the passing of a special law for control over cartels and monopolistic prices in 1931. The law's main purpose was to decrease prices of industrial production.

The extensive state interference in industrial production and the radical changes carried out, brought not only stabilization to the economy, but also an increase in industrial output. According to census data from 1934, 13% of the active population was employed in industrial production⁷.

The adoption of the next Industry Act in 1936 attempted to create a new organization of industrial relationships. It removed the stimulus of the Homeland Industry Stimulation Act and defined the rights and responsibilities of particular factories and sectors. As a consequence of the introduced measures and restrictions, industrial production development accelerated and its output in constant prices in 1941 reached 18.16 billion BGN at an average annual growth rate of 6.9%.

After World War II, with the start of the process of nationalization of banks and industrial enterprises (23.12.1947), the construction of new „socialistic“ enterprises started. The first five-year plan for the country's development (1949 – 1953) marked the beginning of a period of accelerated industrialization of Bulgarian economy, which, however, was not consistent with the natural and demographic characteristics of the country.

In these first years, growth rates of industrial production were too high, but to a large extent unrealistic. Many new factories were built, mainly in the heavy industry sector. Unfortunately, the larger part of them counted solely on raw material imports from abroad – from the member countries of the Council for Mutual Economic Assistance and the equipment and machinery used were outdated.

During the same period, along with the building of new factories, the existing ones were restructured and

consolidated. As a result of this their number dropped from 7000 in 1947 to 2200 in 1989. In relation to the COMECON specialization, Bulgaria developed such branches as truck production, electronics, textile and food and beverage production. The largest part of industrial production came from the so called heavy industries – machinery, metal works, electric works and electronics, chemical production and petroleum processing. At the end of the 1970s, as measured by some key indicators per capita Bulgaria ranked 20th and 30th in the world in these sectors. In terms of electric and motor trucks, electric hoists and other types of complex machinery, our country was in the top ten⁸.

Despite these results, the country's economy started to experience a number of difficulties towards the end of the 1980s. Regardless of the attempts to overcome those through the adoption of a number of new regulatory acts, the country's economic indicators deteriorated. There was a sharp drop in economic development, part of the working factories were closed down and key markets were lost.

For the above reasons, in 1989 Bulgaria launched economic restructuring processes for the whole industrial sector, which represented the larger part of the economy. The basic foundation of the restructuring was the transition from one principle of production to a completely different one – the market. The reforms carried out in the economy, the adoption of an entirely new legislative framework and most importantly – the implementation of an entirely different industrial policy, were able to slow down the negative trend.

Comparatively more optimistic results were achieved in 1997 as a consequence to the structural reform and privatization. Most of the merit for this stabilization is attributed to the Currency Board introduced in 1997.

2. Bulgaria's industrial policy – an element of the Uniform European Industrial Policy

Since 1999 the country's policy with regards to industrial production has been in conformity with the EU requirements. This was a result of an EU preparation and accession procedure which was set in motion.

In relation to this, a new innovative strategy and Investment program were developed and adopted, which aim at creating the necessary conditions for modernization of the industry by 2001.

In parallel, a Strategy for Industrial Development was drafted and adopted, which was part of the National Plan for Economic Development 2000 – 2006⁹. It recognized the importance of accelerated continuation of the privatization process to 2004, regardless of the accomplished restructuring. This resulted in 51.9% of all state-owned assets being privatized and a private sector share in GDP of 70% in 2000.

⁶ <http://monarchism.blog.bg/politika/2010/02/05/ikonomika-na-tretoto-bylgarsko-carstvo.486973>.

⁷ Вж. Стефановъ, Ив. Методика на примишлените преброявания въ България. София, 1939, с. 89 – 96.

⁸ Иванов, Д. Цит. произв., с. 278 – 279.

⁹ Intergovernmental conference for the accession of the Republic of Bulgaria to the EU, Brussels, 23.IX.2001 - www.mi.government.bg.

The new strategy for privatization passed by the Council of Ministers on 15.11.2001, envisioned an expansion of privatization processes in sectors such as energy, railway transport, services, etc. Improving efficiency and control over privatization deals required the passing of a new Privatization and Post-privatization Control Act (31.10.2001) and the institution of a post-privatization control Agency. These come as direct obligations from the EU accession agreement from 1992.

In parallel with privatization, this period was characterized by a process of fast pace liquidation and declaration of insolvency of losing enterprises. As of 31.10.2001, 236 state-owned enterprises were in the process of liquidation and another 159 were at a different phase of the insolvency procedure.

All these measures were aimed at carrying out the necessary restructuring of industrial production.

The other main priority of the government at the time was nurturing a favorable business climate and stimulating investments. As a result of this and in compliance with the requirements for legislative harmonization with the EU, Bulgaria undertook changes in the tax code. A tax code package was developed and adopted for the purpose: Corporate Income Tax Act, VAT Act, Personal Income Tax Act, Local Taxes and Fees Act, etc. Regulatory alleviation was also carried out and by the end of 2000 63 such acts were abrogated.

These measures achieved macroeconomic stability for the economy and in particular for the industrial production and marked the beginning of Europeanization of the Bulgarian industrial policy.

The country's accession to the EU in 2007 allowed the carrying out of our industrial policy on the basis and principles of the European regional policy. Its key instruments are:

1. The structural funds:

- European Regional Development Fund;
- European Social Fund;
- European Agricultural Fund for Rural Development.

2. Community initiatives – INTERREG III; URBAN II; LEADER +; EQUAL

3. The Cohesion Fund – for member countries with GDP per capita less than 90% of the EU average, for projects in the sectors of ecology and Trans-European transport corridors.

4. Pre-accession assistance – PHARE, ISPA, SAPARD

5. European Investment Bank

6. European Bank for Reconstruction and Development

7. European Investment Fund

8. European Central Bank

Bulgaria's industrial policy is carried out on the grounds of the developed and adopted National Strategic Reference Framework (NSRF) and Operational Programme „Developing of the Competitiveness of the Bulgarian Economy 2007 – 2013”.

NSRF describes the country's strategy in supporting the competitiveness of the Bulgarian economy. It is divided in the following main parts:

1. Analysis of differences, weaknesses and potential for development – it encompasses problems of macroeconomic stability and growth, basic infrastructure, human resource development, territorial development and entrepreneurship.

2. Strategy for intervention in key activities and priorities – such as:

- Improving the basic infrastructure;
- Increasing the quality of human capital;
- Encouraging entrepreneurship;
- Balanced territorial development.

3. Operational programmes and mechanisms for coordination and mutual complementation of all financial instruments of the European Union – the programmes are as follows:

- Transport.
- Environment.
- Human resource development.
- Developing the competitiveness of the Bulgarian economy.
- Administrative capacity.
- Regional development.
- Technical assistance.

Operational Programme Developing of the Competitiveness of the Bulgarian Economy 2007 – 2013 is of highest importance to the economy and the industry in particular. It substantiates our strategic priorities and economic development objectives after our accession to the EU. The Programme is funded by the European Fund for Regional Development and the National Budget.

During the period from 2007 to the mid-2008, the new industrial policy resulted in achieving positive rates of growth of industrial production and in parallel there is a process of technological and product renovation. This fully conforms to the stated goal of improving the competitiveness of Bulgarian industry.

Unfortunately, these positive trends have been declining gradually since the summer of 2008. The main reason for that is the financial and economic crisis, which spread throughout the world economy. These negative trends forced the reconsidering of key priorities and objectives of the European economic policy. This resulted in the development of the *Europe 2020* strategy, which is a continuation of the Lisbon Strategy adopted in 2000. It outlines the key parameters of economic and social development of member countries with an emphasis on the following *three priorities*:

- **smart growth** – building an economy based on knowledge and innovation;
- **sustainable growth** – stimulating effective use of resources, environmental conservation and improving economic competitiveness;
- **inclusive growth** – stimulating high levels of employment and achieving social and territorial cohesion.

The seven leading initiatives aimed at achieving

effective results and faster way out of the crisis¹⁰ are an important element of this strategy. These include the initiative „Integrated industrial policy for the globalization era”, which is a basis for the development of a new European industrial policy, aimed at improving the business environment, small and medium enterprise development and achieving sustainable industrial base, allowing competitiveness on a global scale.

In accordance with the changes in European industrial policy, Bulgaria has taken the necessary measures and actions to improve its competitiveness in industrial production. Bulgarian industry turned into a key factor for overcoming the economic crisis. Based on data by the National Statistical Institute, industrial production marked a 5.2% growth rate in 2011. On annual basis compared to December 2009 the growth of processing industry production is 7.9%, 0.8% in the distribution of electricity, heating and gas, and 0.3% in the extraction industry. There is also growth in the field of investment products – 16.9%; 6.9% in the production of intermediate products, and 2% in the production of energy products¹¹.

In 2011 the industrial sector created 33% of the gross added value in the economy compared to 30.3% in 2009, with an effective decrease compared to 2008 of 8.1%¹².

The country's economic development through the years has categorically proven that it is precisely industry that is the economic sector which succeeds in providing macroeconomic stability to Bulgaria. It is undeniable that as an economic branch, industry is of significant importance for separate countries. Furthermore, in accordance with Toffler's theory for the third wave, investments in industry are of vital importance for every economy¹³.

The route of the Bulgarian industrial policy has not been easy and painless. A number of errors and delays were committed, but the final result is more important than that. It is true that Bulgarian industrial production is still falling behind in terms of competitiveness and effectiveness, but the direction of development is correct. At this stage, it is of particular importance to carry on with the transformations that were initiated and to build a contemporary industrial policy, conforming to the principles of the uniform European industrial policy.

Денева А. Європейські виміри болгарської індустріальної політики

Центральна роль індустріального виробництва у відродженні економік європейських держав в останні два роки стала приводом для актуалізації питання про європейську індустріальну політику. Здійснено перші

кроки до оновлення Європейської індустріальної стратегії й формування Єдиної європейської індустріальної політики.

Ключові слова: Європа, вимір, промислова політика, формування.

Денева А. Европейские измерения болгарской индустриальной политики

Центральная роль индустриального производства в возрождении экономик европейских государств в последние два года актуализировала вопрос о европейской индустриальной политике. Предприняты первые шаги к обновлению Европейской индустриальной стратегии и формированию Единой европейской индустриальной политики. Болгария как полноправный член Европейского сообщества также уделяет значительное внимание и усилия к улучшению состояния своей индустрии. Политика, которую проводит страна по отношению к индустриальной отрасли, является объектом исследования в настоящей статье. Акцент ставится на процессе ее трансформирования согласно особенностям и требованиям ЕС. Рассматриваются основные рычаги современной болгарской индустриальной политики как элемента создающейся единой европейской индустриальной политики.

Ключевые слова: Европа, измерение, промышленная политика, формирование.

Deneva A. European Dimensions of Bulgaria's Industrial Policy

The central role of industrial production in the European countries' economic revival in the last two years has brought to the front the concept of European industrial policy. Moreover, the first steps on the renewal of the European industrial strategy and the formation of a uniform European industrial policy were made. Being a full member of the European Union Bulgaria also pays special attention and makes efforts to improve the state of its industry. This article examines the policy of the government regarding the industrial sector. The emphasis is on the process of its transformation according to the EU specifics and requirements. The basic levers of the modern Bulgarian industrial policy are discussed as an element of the uniform European industrial policy that is being built.

Key words: Europe, measuring, industrial policy, forming.

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¹⁰ Europe 2020 Strategy for smart, sustainable and inclusive growth, European Commission Brussels, 2010, p. 7.

¹¹ newspaper Monitor, 08.02.2011

¹² <http://eea.government.bg/cms/bg/soer-bg-2009/2economy/2industry>.

¹³ Дочев, И. и др. Преструктуриране и предприемачество в индустрията на РБългария. С., 1995., с. 3.