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# SUSTAINABLE ECONOMIC DEVELOPMENT THROUGH SUSTAINABLE ECONOMIC POLICY: IS BULGARIA READY FOR A REINDUSTRIALIZATION POLICY?

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**Abstract**

The need for a new industrial policy is felt both at European and Bulgarian level. Recent theory recommends that such policy should follow "soft" and horizontal measures that enhance collaboration between government, industry and cluster-level private organizations and focus on creating a competitive environment. This understanding is contrary to old-fashioned industrial policy involving subsidies to specific sectors, bail-out of uncompetitive firms and sectors, tariff and non-tariff barriers aiming at import substitution. This article analyzes the degree at which Bulgaria is prepared to implement the new industrial policy and in particular, how the country might fit into a common European policy. The analysis and data provided point to the fact that there is a misunderstanding of the "soft" and horizontal measures, distorting the concept of a new industrial policy. The arguments in the paper also suggest that in sectors defined as priorities in Europe, our country considerably lags behind, therefore, Bulgaria is at a lower stage of preparedness for implementation of a "new" industrial policy as a whole.

## Introduction

The European economy has failed to recover fast enough from the recession after the financial and debt crises and it is losing competitive positions against USA, Japan, and in some cases, the BRICS countries. This provoked a heated debate among academics and practitioners over strengthening economic growth, competitiveness and sustainability in the European Union. The European Commission has proposed the implementation of an adequate program and industrial policy instruments. In this context, several questions have been posed being of immense significance for Bulgaria. Does the country need a reindustrialization policy and is it ready for it? Are

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the necessary conditions for effective implementation of such a policy in place? If such policy is going to be implemented, on what principles it should be built so that sustainable results be achieved? Which are the main problems to be resolved? The current paper takes into consideration the above questions.

The first section presents a recent theory about the implications of an active industrial policy and its dimensions. The second section summarizes the ongoing debate on the industrial policy in Europe, whereas the third and fourth sections present arguments for and against it, accordingly. The fifth section provides insight into the requirements for a successful industrial policy in the context of Bulgaria, while the sixth section presents the possible objectives for Bulgaria and their compatibility. The seventh section outlines priority sectors, industries and businesses selection criteria. The final section offers conclusions.

**1. Industrial Policy: Rationales and Measures**

The industrial policy in Europe follows several phases: postwar intervention and nationalisation, sectoral policy (from sectoral planning and state aid inter alia via Marshall Plan assistance) and currently, dominance of horizontal or competitiveness-oriented policy enhanced by EU policies. The current policy includes tariff reduction and state aid, internal market and deregulation policy, and research framework programmes, whereas future industrial policy is expected to consist in a Systemic Industrial and Innovation Policy (SIIP) (Aiginger, 2011).

Von Mises (1998) argues that the economic policy of interventionism is unable to lead to a sustainable system of economic organization: interventionist measures create market distortions such as unemployment, depression, monopoly, distress and are in general not Pareto optimal as they serve the interests of a minority at the expense of the majority. Among others, von Mises analyzes interference by restriction and price control, conduct of inflation policy and credit expansion, confiscation and subsidies, and the presence of corporativism and syndicalism. One reason why governments conduct such a policy is to "compensate by further interventions for the shortcomings of earlier interventions" and in that way they hamper the economy even further.

Additionally to correction of already implemented policy that led to market distortions such as rent-seeking, Rodrik (1993) provides more rationales for trade and industrial policy reform in developing countries. His arguments include improvements in static resource allocation; dynamic benefits in the form of learning, technological change, and growth; improved flexibility in the face of external shocks; and improved capacity utilization in the face of bottlenecks and macroeconomic policy

failures (Rodrik, 1993). Rodrik also claims that industrial policy might actually have beneficial influence on the economy.

Furthermore, Aghion et al (2012) present evidence that a competition-friendly sectoral policy, including subsidies, tax holidays and tariffs can boost total factor productivity and growth. Their empirical analysis suggests net positive impact of subsidies that are allocated to competitive sectors and in a way that preserves or increases competition, e.g. vertical innovation rather than differentiation between firms.

Rodrik (2007), Harrison and Rodríguez-Clare (2010), Reis and Farole (2010) and Aiginger (2011) suggest different models opposed to old conceptions of industrial policy. Rodrik (2007) claims that the right model for industrial policy is the "strategic collaboration between the private sector and the government with the aim of uncovering the most significant obstacles to restructuring and discovering what interventions are most likely to remove them". Therefore, the focus should not be on the outcome of the policy, which by far is unknown ex ante, but the process itself, the design of the setting. Finally, specific measures or targeted industries come as a by-product of this process.

Similarly, Harrison and Rodríguez-Clare (2010) argue that "soft" interventions that would target the coordination failures within the sectors or clusters with comparative advantage, rather than "hard" interventions such as tariffs, export subsidies and tax breaks for foreign corporations would be more beneficial for a developing economy. "Soft" industrial policies target the creation of a process in that government, industry and cluster-level private organisations cooperate in interventions that directly enhance productivity. Such policies might be directed at supply of skilled workers, technology adoption and regulation and infrastructure. The benefits of "soft" over "hard" policies is that the former reduce the risks of rent-seeking and corruption, and are also more compatible with multilateral and bilateral trade and investment agreements.

They also argue that infant-industry protection is justified either way: providing there is a latent comparative advantage in this industry or in case the international price for this industry exceeds the warranted by the true opportunity cost of this good abroad. However, more efficient policies exist: contrary to protection, production subsidy would not cause temporary consumption losses and would work even in the presence of sector-specific coordination problems. Furthermore, R&D subsidies can target externalities as a consequence of innovation spillovers, while promotion of entry into new industries can target information spillovers associated with the discovery of new profitable activities.

Furthermore, Reis and Farole (2010) recognize the risk that old-style industrial policy, expressed in picking winners, managing unrealistic exchange rates, import substitution, and protection can lead to market distortion and reduction of competi-

tiveness and undermine recent gains in trade liberalization. However, they admit the critical role of government in overcoming market failures and in creating opportunities for the private sector to respond to market opportunities and enhance growth. This competitiveness approach might translate into unlocking the constraints that discourage innovation, investments and export diversification; and in facilitating the capacity for economywide adjustment due to investments in human capital, sound macroeconomic foundations and basic institutions such as property rights, the rule of law and effective regulation. Furthermore, Reis and Farole (2010) propose three pillars that would describe the competitiveness policy framework:

- aligning macro incentives (tariff and nontariff barriers, real exchange rate misalignment and a distortive tax regime; overall fiscal health of the economy, efficient labor market, product and factor market, property rights, regulation and ease of firm entry and exit);
- reducing trade-related costs (backbone services and inputs such as energy, telecommunications, finance; capacity and coordination of government agencies, international transit arrangements, regional and multilateral agreements; policy reforms for more competitive markets for international transport, logistics, and other);
- establishing proactive policies that aim to overcome government and market failures (technology creation and adaptation, product standards and certifications, trade finance, industry clusters, special economic zones and other spatial developments and coordination of economic actors as well as links and spillovers to the local economy).

It is worth mentioning that contrary to common understanding, Japanese industrial policy has been for a long time a "soft" one. According to Okuno-Fujiwara (1991), postwar Japanese industrial policy was transformed toward the end of the 1960s. Since then, the main focus of policy seems to be correcting market failures, including promoting private research and development (R&D) efforts and assisting in the structural adjustment of the economy.

Finally, Aiginger (2011) points to the importance of the so called "matrix approach" by Aiginger and Sieber which comprises both vertical and horizontal policy measures. An example is given with the primarily horizontal approach of the European Commission that also acknowledges that general measures influence differently the various industries and should be complemented by sector-specific strategies.

## 2. The Debate on the Industrial Policy at European Level

There is a heated debate among academics and practitioners over strengthening economic growth, competitiveness and sustainability in the European Union and in

turn, the European Commission proposes the creation of a relevant program and policy instruments. The initial impetus from Brussels can be traced in a number of documents, the first of them dating back to 2010 and 2012 (European Commission, 2010, 2012). The topic was discussed in great detail in 2013 and 2014 (European Commission, 2014, Committee on Industry, Research and Energy, 2013). In the meantime, some member states, including France, Germany, Britain and Spain have already managed to identify appropriate strategies and industrial policies at national and regional level.

The active industrial policy is justified in the documents of the European institutions by the necessity to boost the growth and competitiveness of the European economy which has been failing to recover fast enough from the recession and is losing its competitive position against USA, Japan and in some cases, against the BRICS countries. The strong industrial base is of great economic importance, both direct and indirect through its related activities. In stimulating the industry, the European institutions recognize a catch-up opportunity. The European Commission aims to reverse the decline by increasing the industry share and taking promotional measures whereas the target share of industry in the gross domestic product (GDP) of member states is expected to increase from 15.6% in 2012 to 20% in 2020.

This is a challenging target but its achievement is not certain at all. Many analysts believe that such a target tends to be over-ambitious and rather unrealistic. The reasons can be the higher potential of other economic sectors, the over-capacity of some sectors of the European industry, the rapid development of the service sector, the overall loss of competitiveness in many countries, the promotion of green policies that would lead to more expensive electricity and others (Heymann and Vetter, 2013). Such analyses lead to the conclusion that the share of industry cannot increase significantly in terms of European economy.

**However, this does not eliminate the discussion on industrial policy.** The discussion about industrial policy should be approached not so much as a matter of figures but as an important issue since the industrial sector is of significant importance to the economy and will remain so in the foreseeable future. Taking into account current trends which are not so favorable, measures for preservation and development of the European industry are to be taken.

In this context, the priorities of the European Commission in the area of industrial policy are as follows (European Commission, 2014):

- continue the process of deepening the mainstreaming of industrial competitiveness in other policy areas to sustain EU economy and its competitive value, given the importance of the contribution of industrial competitiveness to the overall compet-

itiveness performance of the EU. For instance, special attention must be paid to increasing productivity in business services to increase industrial competitiveness and competitiveness of EU economy in general.

- maximize internal market potential by developing the necessary infrastructures, offering a stable, simplified and predictable regulatory framework which favours entrepreneurship and innovation, integrating capital markets, improving opportunities for training and mobility for citizens and completing the internal market for services as a major contributing factor to industrial competitiveness.
- implement the instruments of regional development via national and EU instruments in support of innovation, skills and entrepreneurship to deliver industrial change and boost the competitiveness of the EU economy.
- encourage investment as businesses require access to critical inputs, and in particular, energy and raw materials, at affordable prices that reflect international cost conditions. The design and implementation of policy instruments for different objectives both at EU and national levels must not result in price distortions that imply disproportionately higher relative prices for these inputs. Action should also be taken in the internal market and at international level to ensure adequate provision of these inputs as well as to increase energy and resource efficiency and reduce waste.
- do the utmost to facilitate the integration of EU firms in global value chains to boost their competitiveness and ensure access to global markets in terms of more favorable competitive conditions.
- Finally, the objective of revitalization of the EU economy calls for endorsement of the reindustrialization efforts in line with the Commission´s aspiration of raising the contribution of industry to GDP to as much as 20% by 2020.

In line with the understanding of the necessity of an industrial policy aimed at achieving the above mentioned priorities, the European Commission proposes the creation of a relevant program and policy instruments. However, such program could only consist of general guidelines. It is practically impossible to make specific policy recommendations at European level due to the heterogeneity of the European industry in terms of stage of development and level of specialization of the member states. A decline in the share of industry in the gross value added and in the number of industry employees has been observed practically in all countries in the last 10-15 years. However, quantity and quality are quite different among the member states. The Czech Republic holds the highest share of industry in gross value added with 24.7%, followed by Ireland (23.3%), Hungary (22.7%) and Germany (22.4). Except the expected Luxembourg (6%), Cyprus (6.3%) and Greece (9.7%), other countries such as

United Kingdom (10%) and France (10%) also show a low share of industry (Eurostat).

The conception of the European Commission suggests that member states should have the primary role in the implementation of the reindustrialization policy according to their own views, though in compliance with the EU framework. **The latter shifts the debate on a national level and therefore, it becomes imperative for Bulgaria to conduct a thorough debate in order to make the right strategic decisions.**

So far, such discussion has not yet taken place. In most cases, the issue is discussed with a certain degree of misunderstanding of the conception of the European Commission, there is also a distortion in the direction of the political status quo and particular daily topics and quite diverse interpretations. The debate also focuses on whether such a policy is necessary at all. So one of the first tasks is to weigh up costs and benefits of an active industrial policy in the country.

### 3. Active industrial policy – supporting arguments

Policies for business support, for employment or productivity growth are widespread and frequently implemented around the world, including the European Union (Criscuolo et al, 2012). Most of the developed countries have implemented or are currently implementing industrial policies in one form or another (Chang, 2002).

The theory suggests that such policy can be appropriate because of market failures (i.e. inability of the market to find an optimal solution), the necessity to protect industries in their initial phase of development, latent comparative advantage, positive effects from the diffusion of know-how from foreign investors to local producers, increase in export opportunities and last but not least, strategic considerations.

Moreover, the recent economic literature examines three further lines of argumentation.

- The first one is due to the necessity to avoid adverse climate changes. It is widely agreed that global warming will have disastrous consequences without government intervention towards clean production and clean innovation. As a result, many governments engage in policies to stimulate alternative production and consumption technologies.
- Another line of argument follows the experience of the last financial crisis when the problems of the financial institutions were transmitted to the real sector of the economy.
- Finally, a number of researchers pay attention to the fact that completely liberal economic policies (laissez-faire) lead the developed countries into

specialization of countries in research and development (R&D) activities and services. Accordingly, the latter outsource their manufacturing processes in developing countries with lower labor costs which in turn leads to employment issues in the developed countries.

The practical tools for the implementation of industrial policies are numerous – direct subsidies, indirect subsidies, tax breaks, preferential loans, duties, non-tariff barriers, favorable treatment of certain categories of investors, building infrastructure, subsidies on row materials and on labor costs, guaranteed production prices, and many others.

The European Commission however, is not oriented to measures such as those mentioned above but rather to "soft" tools that do not distort the competitive environment. The main idea of reindustrialisation is to find a new platform for common policies in Europe after recovery from the global financial and economic crisis. The focus is on higher competitiveness, further growth and jobs. In this context, the European Commission proposes the following pillars of industrial policy (European Commission, 2014):

*A. An integrated, single European market: creating an attractive place for enterprises and production*:

A1. Completing the integration of networks: information networks, energy and transport;

A2. An open and integrated internal market in goods and services;

A3. Business environment, regulatory framework and public administration in the European Union (EU).

*B. Industrial modernization: investing in innovation, new technologies, production inputs and skills*:

B1. Stimulating investment in innovation and new technologies; priorities:

- advanced manufacturing
- key enabling technologies (KETs)
- bio-based products
- clean vehicles and vessels
- sustainable construction and raw materials
- smart grids and digital infrastructures

B2. Increasing productivity and resource efficiency and facilitating access to affordable production inputs:

- access to finance
- energy
- raw materials and resource efficiency

B3. Upgrading skills and facilitating industrial change.

*C. Small and medium sized enterprises and entrepreneurship*:

C1. Regulatory and administrative costs; clusters.

*D. Internationalization of EU firms*:

D1. Market access

D2. Standardization, regulatory cooperation and intellectual property rights.

How such measures would affect the Bulgarian economy? Some of them might be very effective in the Bulgarian context. For instance, the setting up of a single energy market could lead to a fall in prices of imported energy sources. Modernization through investments in innovations, resource efficiency, new technologies and skills, and facilitating access to finance are considered lasting weaknesses of the industrial enterprises in Bulgaria. Furthermore, regulations certainly need to be simplified and the public administration needs to be more effective. The promotion of small and medium sized enterprises would be very helpful as well, including their internationalization.

**4. Active industrial policy – arguments against**

Neither theory nor practice considers the implementation of industrial policies unambiguously. Theory denies it most frequently because the government intervention in the economic system hinders competition and distorts markets. Furthermore, government intervention creates corruption incentives because the administration has the opportunity to select winners ("national champions") and losers in the competitive struggle, often led by purely corporate interests. Moreover, the public administration cannot always understand and predict the dynamics of the markets and favoring individual firms and sectors in practice is often a product of certain lobbies. It is hard to say that all these arguments are irrelevant to the contemporary Bulgarian economic system. From this perspective, the role of the state of the economy should be limited to horizontal policies that would stimulate the supply side in a balanced manner.

Another objection is that a high share of industry to GDP or gross value added (GVA) does not necessarily determine a prosperous economy. In recent years, the share of industry in gross value added has declined substantially in many countries without affecting their growth in the period before the crisis or hindering them to manage the crisis successfully. For instance, the share of industry in gross value added declined in virtually all countries but especially in Finland it dropped by 10 percentage points and in Sweden and Belgium by 6 percentage points between 2000 and 2012 (Eurostat). However, other sectors such as services (finance, telecommunication) or transport can also create well-paid high-tech and stable jobs.

The third objection is that the current structure of the European economy is not a result of the coordination function of the market price system but rather a result of a lot of political interference. Perhaps the undisturbed market would allocate more resources to the industry and less to other sectors of the economy. One should make a difference between an industry growing due to some authentic comparative advantages that Europe has against the world and an industry growing because of the EU subsidies. The artificial stimulation of the industry will cause additional disbalances and may, through the distribution of subsidies and the introduction of various constraints and preferences, even undermine the very foundations of the EU – the free movement of goods, services, capital and individuals.

Weighing up the various arguments and experiences accumulated over many years leads to the conclusion that certain industrial policies could be successful in increasing competitiveness and stimulating economic growth. However, such policies need to be carefully designed in accordance with the national specifics and at the same time, avoid possible negative effects coming from government interventions. So, the debate "for" or "against" industrial policy should not be based on whether it should be implemented at all. The productive debate should focus on how to organize and conduct such policies that promote competition and increase productivity and lead to the acceleration of economic growth.

**5. Requirements for a successful industrial policy in Bulgaria**

Attitudes towards implementation of a reindustrialization policy, planning and resource allocation do not guarantee the best possible outcome. To be of a real benefit to society, the reindustrialization policy should be conducted under certain conditions.

**The first condition is successful fit of Bulgaria in the context of a common European policy.** Bulgaria cannot (or at least it would be very difficult) conduct an independent industrial policy because of certain resource constraints and because of possible conflicts with the European legislation on state aid. Therefore, it is of importance that the interests of the Bulgarian economy be included as much as possible in the formation of the European policy. A possible national policy must fit within the European framework which would most likely reflect the priorities of the countries with the greatest ability to influence the decisions of the European institutions.

Indicative in this respect is the understanding of the European documents calling to conduct an active industrial policy and recommended measures and policies in this direction. In Eastern Europe, particularly in Bulgaria, many specifics in the recognized problems and proposed actions, along with a number of common situations, require different understanding and, above all, different content of the active industrial policy[1].

The same applies to the purely quantitative target set by the European Commission – the share of industry in GDP within the EU to increase from 15.6% to 20% by 2020. Looking only at the figures, Bulgaria (with a share of industry in GDP of around 24%) would have to follow its current policy while countries with "underdeveloped"industry like Great Britain and France (with shares of industry in GDP of around 10%) should significantly develop their industrial sector and are therefore likely to receive substantial support from European funds.[2]

**Another important condition for the success of the industrial policy in the country is to be incorporated in a sound strategy with clear and consistent objectives, and with the right measures that will lead to the implementation of such strategy.** The sectors, activities, procedures or products that would be stimulated should be selected in a strategically correct manner and the measures should be aligned to their objectives. This is not an easy task for the public authorities, especially when they lack proper expertise and capacity or when they are subject to political influence/pressure. In such cases they may misjudge the market dynamics and the outlook for industrial production respectively and thus public funds may be allocated to support futureless subjects. Section 6 below, presents possible targets of the industrial policy.

**Third, it is important to recognize correctly the possible effects of government stimulation of certain activities in terms of the overall economic system.** For instance, the promotion of electricity production from renewable sources was imposed by European policy to diversify energy sources and to ensure environmental protection. But its implementation in Bulgaria (and elsewhere) proved to be disproportionate and leading to a number of adverse outcomes. The high cost of the produced electricity reduced the industrial competitiveness and increased the cost for households. This is the result of a poorly implemented strategy for stimulating "green" electricity production – a strategy that does not take into account the dynamics of the process, does not monitor the market saturation and does not account for the effects on other market participants.

The promotion of certain sectors will inevitably attract resources to them. So it may be the case of artificially supported growth of some sectors compared to others because of resource reallocation from the former to the latter. Engineering and technical personnel, financial or natural resources can be simplistically reallocated and lead to higher growth in the supported industries at the expense of others without increasing the growth of the economy as a whole. Although the agricultural sector is not industrial, the current system of subsidies in Bulgaria can be used as an example in this regard. Grain production is stimulated at the expense of vegetables and fruit

production, resulting in the fact that many lands and other resources suitable for perennial crops are used for annual crops. As a consequence, the raw material base of the food processing industry is largely limited and unstable.

**Fourth, the policy should be elaborated and implemented by public authorities with the corresponding capacity and transparency.** The very fact that improving the public administration is one of the first priorities of the proposed European policy for reindustrialization confirms that this condition is not always granted – neither in Bulgaria nor in other countries.

Taking into account the differences and conditions for success mentioned above, the fit of Bulgaria into the EU-wide trend for an active industrial policy is not as simple and unambiguous as it seems. The reindustrialization in general and as well as active industrial policy cannot be the target themselves but rather they should be a tool to achieve specific goals – growth of GDP, income and employment among others, at a specific place under specific conditions in a specific period.

### 6. Objectives and their compatibility

The focal point of any strategy for industrial policy are the objectives that this policy aims to achieve. In the context of the common European objectives and priorities, Bulgaria has so far not defined its own objectives and priorities unambiguously. Different views put emphasis on different objectives: strengthening the innovation potential and restructuring of the economy towards high value-added and knowledge-intensive sectors (Advisory Board to the Industrial Stability Pact, 2013), development of high-tech industries (Civil Association for Reindustrialization of Bulgaria, 2014), preserving the high share of industry in gross value added, creating new jobs and an increase in employment in industrial sectors, income growth of employees in industrial sectors, building a competitive industry at global level through R&D activities (Ministry of Economy, Energy and Tourism, 2014).

Each of these objectives is important and worth pursuing, but a proper strategy should set clear objectives that are consistent and not conflicting because in many cases desirable objectives cannot be achieved simultaneously due to incompatibility. Therefore, proper objective setting should be the foundation of a future industrial policy.

### 7. Priority sectors, industries and businesses selection criteria

Once the objectives of the industrial policy have been defined, one should select the priority sectors (productions, products) that must be promoted as well as the supporting tools.

The rational approach suggests the following criteria: the relevant subjects are to be:

- participants in an emerging market or a market that is expected to grow;
- participants with a strong market position, competitive advantages (prominent or latent) on solid technological, academic and commercial basis;
- users of affordable and manageable technologies and resources.

Individual industries should be objectively ranked according to the above criteria and then classified according to their complex indicators.

At this stage, a final analysis based on the above criteria is not officially presented by the administration of the country but a draft of an Action Plan for the Reindustrialisation has gained publicity (Ministry of Economy and Energy, 2014). This project suggests a number of measures in a wide range of problem areas, but it is noteworthy that most of them have deadlines by the end of 2014 or even at the end of 2015, which carries the risk of delay and loss of certain opportunities. An Innovation Strategy for smart specializations should have been adopted by the end of 2014 as a precondition for the Partnership agreement with the EU. The strategy was supposed to outline the priority sectors with competitive advantage in Bulgaria as well as the projects and programs in the field of innovation to be funded until 2020. Such a Strategy was finally adopted at the end of 2015 (Council of Ministers, 2015) with monitoring procedures which are supposed to be ready by the middle of 2016. This is an obvious delay.

In the context of the expected reindustrialization policy various institutions in Bulgaria have proposed priority sectors. But a common feature of all proposals is that the selection criteria are not precise. These proposals have many intersections, but they also have many differences. The intersections, in terms of selection, are usually the importance of global markets, technology and specialization, growth, placement of the industrial production (export) compared to global demand and (national) resource availability. Also, the specific outcomes such as employment and income growth as a consequence of the development of industries selected on these criteria are not considered. It is rather implied that they will be achieved on their own as part of the main goal: economic growth. Possible effects on non-supported industries or other possible side effects are not considered either.

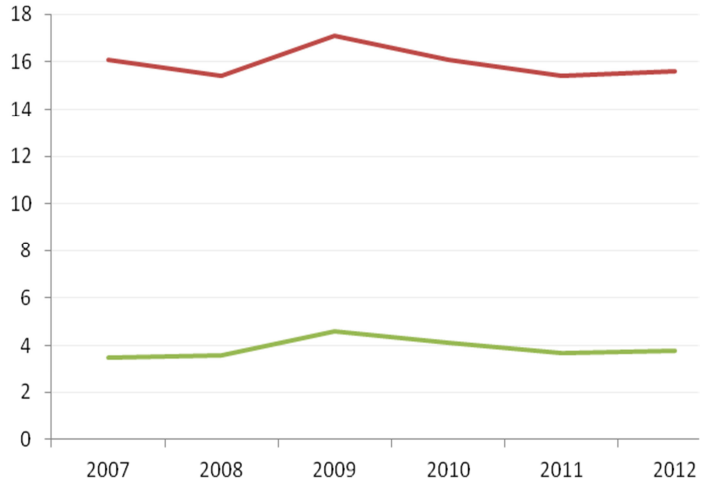
In particular, electronics, electrical engineering, transport equipment, machinery, chemicals and plastics, food processing, logistics, information technology, outsourcing, healthcare and pharmaceuticals, clean technology and biotechnology are proposed as priorities for attracting foreign direct investments (Ministry of Economy, Energy and Tourism et al, 2011).

Software and hardware products, artificial intelligence and related supplying industries, cosmetics and the music industry are identified because of the availability of human capital. Clothing, shoes, food processing and furnitures, household and kitchen articles are existing but need more innovation. Last but not least, nanotechnology is recommended as a promising industry (Civil Association for Reindustrialization of Bulgaria, 2014).

According to other views, priority should be given to greenfield investments in new high-tech industries, no matter whether foreign or domestic, modernized with foreign assistance (microelectronics, manufacturing, wine, food processing, etc.). Some politicians having in mind the problem of employment in the country have suggested the recovery of parts of old industrial giants which are now out of operation. At the same time, there are proposals for promotion of non-industrial sectors such as spa, wellness, and cultural tourism (Civil Association for Reindustrialization of Bulgaria, 2014).

The recent Innovation strategy for smart specialization (Council of Ministers, 2015) sees the following industries as upbeat: mechatronics and clean technologies, IT and communications technologies, biotechnologies, nanotechnologies, creative industries, pharmaceuticals, food industry.

Actually, various viewpoints seem to overlap over the following industries: information and communication technology, electronics and engineering, chemistry and pharmaceuticals, food processing. At the same time, the factual picture of the Bulgarian export outstandingly differs as it shows that currently the country exports mainly low-tech products. The problems with the listed industries which are mainly high tech are well illustrated in Graph 1. It compares the high-tech export as s percentage of total export in Bulgaria and the EU. On average, the high-tech export amounts to around 16% in the EU, while in Bulgaria it is about four times lower (Eurostat). Leading countries such as Ireland, France, the Netherlands, Hungary and the United Kingdom are significantly above the EU average.




**Graph 1. High-tech export as a percentage of total export. Lower line – Bulgaria, upper line – EU average. Source: Eurostat**

Factual data also shows that raw materials represent a great share of the Bulgarian export (Yarliyska and Dimitrova, 2012), which means that the competitiveness of the targeted priority industries (mainly high-tech) is problematic and their stimulation does not necessarily guarantee future success.

As can be seen from the brief review, the vision for a potential reindustrialization policy is not clarified yet either in terms of its goals or in terms of its objectives. Indeed, certain efforts need to be made in order to come to a right and logical scheme, which is one of the above mentioned conditions for success.

**Conclusion**

There is a heated debate on the rationales and validity of industrial policy in Europe, seeking to find ways how Europe can regain its competitive advantage against other countries. As an EU member-state, Bulgaria is expected to fit in the European context and comply with the new industrial policy proposed by the European institutions. Sadly, Bulgaria is not yet ready for the conduct of an efficient policy for reindustrialization aiming at improving competitiveness and fostering economic growth.

The conditions under which a reindustrialization policy for Bulgaria is likely to succeed are analyzed in the paper. In view of these conditions, the presented arguments lead to the following conclusions:

- Bulgarian interests are not well integrated in the European framework;

- the debate in Bulgaria is directing its focus away from the new type of industrial policy based on "soft" and horizontal measures;
- the strategic goals of a reindustrialization program are not clearly defined;
- priority industries are not identified according to precise criteria, although many have been proposed and publicly promoted.

As a result the country is still not prepared to conduct a sustainable reindustrialization policy and further efforts by the Government, the employers' organizations, the labor unions and academic organizations are most certainly needed.

**End Notes**

1 Report on Re-industrializing Europe to Promote Competitiveness and Sustainability by the Committee on Industry, Research and Energy leads to the conclusion that Eastern Europe does not seem to exist. The problems and measures discussed in the report are typical of the highly developed EU members, some specific problems in Southern Europe are briefly mentioned, and there is virtually nothing about Eastern Europe. The draft of the resolution included in this report clearly reflects the positions and interests of developed member states and on many occasions, its recommendations are unacceptable or counterproductive for countries like Bulgaria.

2 In countries like Great Britain and France, there are other sectors, besides the industry, which are highly developed with the respective contributions to the final volume of GDP. For example, the United Kingdom is a global financial center and its financial sector is not proportionally large – it serves not only the British economy, but practically the whole world. As a result the share of industry in GDP is relatively small one.

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