

# The Competitiveness of the Bulgarian Economy - Competitive Advantages and Disadvantages

## (Analyzing with the TOWS Matrix)

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### Summary:

The economic aspects of competitiveness are important and significant issues for both Bulgarian and international theory and practice. Knowledge of competitive advantages and disadvantages of each nation is of major importance for this category.

Thus, the objective of this paper is to identify the strengths and weaknesses of the national competitiveness and to analyze the effective process to develop a strategy for Bulgarian competitiveness. Data provided by the World Economic Forum (WEF) is to be used as an instrument, using which an effort will be made to reveal the strengths and weaknesses of Bulgaria's competitiveness. Using *TOWS Strategic Alternatives Matrix* an effort will be made to highlight the Bulgarian national competitiveness strategies, given the current economic reality.

**Key words:** Global Competitiveness Index, national competitiveness, TOWS Strategic Alternatives Matrix

**JEL Classification:** O11

Every nation needs a *competitiveness strategy* in the world economy. This need for a strategy may be justified by several relevant facts and circumstances, namely:

- Unsatisfactory level of competitiveness of Bulgaria in international comparative studies and rankings.
- Bulgaria's membership in the EU and meeting commitments of the state in achieving the objectives and programs of the EU to attain greater competitiveness.
- The impact of the global financial and economic crisis on Bulgaria's economy and the need to review the opportunities and tools to achieve greater competitiveness.

The relevance of issues related to competitiveness both at the national and international level is indicated by the annual meetings of the World Economic Forum (WEF) in Davos and the feared "Loss of Confidence in the Leadership of the Government" regarding the economies' competitiveness (Lee Howell, Managing Director of the World Economic Forum, responsible for the 2013 WEF Report), EU programs and particularly the competitiveness and innovation framework program, the indicative measures in the

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fulfillment of commitments related to OP Competitiveness of the Ministry of Economy, Energy and Tourism, etc.

There are a number of ideas in the concept of national competitiveness, which allow interpretation of the concept and category. A reference to the Annual Report of the World Economic Forum would be appropriate for our analysis, where *competitiveness is defined as "a combination of institutions, policies and factors that determine the level of productivity of the country"*<sup>1</sup>. If the global scientific community has an interest in such an understanding of competitiveness as

has developed as an important source of knowledge and information over the years, which enable the socio-economic development of the countries in the world to be assessed individually and in comparative terms. It is based on the **Global Competitiveness Index (GCI)**, which reflects the micro- and macro-economic aspects of competitiveness and a number of factors with different weights for each covered component are set for the calculation of this index. According to the current Report, the factors are distributed into 12 pillars by three groups of factors:

Basic requirements	Efficiency enhancers	Innovation and sophistication factors
Pillar 1. Institutions Pillar 2. Infrastructure Pillar 3. Macroeconomic environment Pillar 4. Health and primary education	Pillar 5. Higher education and training Pillar 6. Goods market efficiency Pillar 7. Labor market efficiency Pillar 8. Financial market development Pillar 9. Technological readiness Pillar 10. Market size	Pillar 11. Business sophistication Pillar 12. Innovation

well, then taking into account the Bulgarian conditions, it will be in the best interest to follow up this idea by exploring the possibilities to identify the competitive advantages and disadvantages (strengths and weaknesses of Bulgarian competitiveness) and by analyzing them to come up with a *strategy for our national competitiveness*.

### 1. World Economic Forum (WEF) study

The most representative national economies competitiveness study is the WEF study which started being published nearly 30 years ago, and includes more than 140 countries worldwide. This study

The three groups of factors determine the development phase, where each country is located. The first group defines the lowest development phase – determined by factors, the second phase involves factors related to the efficiency of the economy, the third phase, being the highest, includes factors such as the maturity of the business and the innovation potential. According to the survey, Bulgaria is at the second economic development phase (in contrast to almost all other EU countries, which are in a higher phase) with respect to its potential for achieving higher competitiveness. Countries are

<sup>1</sup> WEF, Schwab Klaus – Global Competitiveness report 2012 – 2013, p. 4

Table 1. The Global Competitiveness Index

**Articles**

ranked in the three groups (phases of development) based on two main criteria - the first one is GDP per capita, while the second one depends on the share of commodity exports in the total volume of the country's exports. Countries where the share of these exports exceeds 70 per cent are largely dependent namely on the conditions of the factors. Each of the 12 columns is involved in the formation of sub-indices with a different weight. Multiple indicators are included in the 12 columns, some of which are quantitative, obtained on the basis of statistical information and data, while others are derived based on polls in different countries included in the Report. Thus, when assessing competitiveness WEF presents a combination of an objective and a subjective approach in its Report. Hence, with the publication of the Global Competitiveness Index, the position of the individual business in comparison with rest may be determined, the strengths and weaknesses of a country's competitiveness may be sought and the changes in its competitive position over the years may be tracked.

**2. What is Bulgaria's position in the GCI ranking of WEF?**

As a result of the calculation of the indicators that are equal to 4.3 for 2012, Bulgaria is 74<sup>th</sup> out of 144 countries in the ranking of the forum. Countries like China, South Africa, Morocco, Peru are ranked higher than Bulgaria, while after us are listed countries such as Romania, Ukraine, Albania, etc. This ranking for Bulgaria is summed up by the positions of the twelve individual pillars of the Global Competitiveness Index (please see Table 1).

Table 1. The Global Competitiveness Index

Range (144)	Score (1 om 7)
GCI 2012–2013	74 ..... 4.3
<b>Basic requirements (40.0%)</b>	65 ..... 4.6
Institutions	108 ..... 3.4
Infrastructure	76 ..... 3.8
Macroeconomic environment	31 ..... 5.4
Health and primary education	49 ..... 5.9
<b>Efficiency enhancers (50.0%)</b>	59 ..... 4.2
Higher education and training	63 ..... 4.3
Goods market efficiency	83 ..... 4.2
Labor market efficiency	49 ..... 4.5
Financial market development	80 ..... 4.0
Technological readiness	52 ..... 4.3
Market size	62 ..... 3.8
<b>Innovation and sophistication factors (10.0%)</b>	97 ..... 3.3
Business sophistic	97 ..... 3.6
Innovation	92 ..... 3.0

Source: *The Global Competitiveness Report, 2012 – 2013, p. 120*

This position of Bulgaria, presented in comparative terms by different columns, or by the blue line with the average performance of all countries in the WEF survey with a level of development similar to Bulgaria, or the black line, can be seen on Figure 1

According to the survey Bulgaria is at *the second economic development phase*, where with the increase in productivity our country has moved to a condition associated with a higher efficiency of the economy. There is an already built potential to develop more efficient production processes and to increase product quality. At this phase competitiveness grows based on factors such as higher levels of education and skills of the population (5th column), developed stock markets

## Stage of development

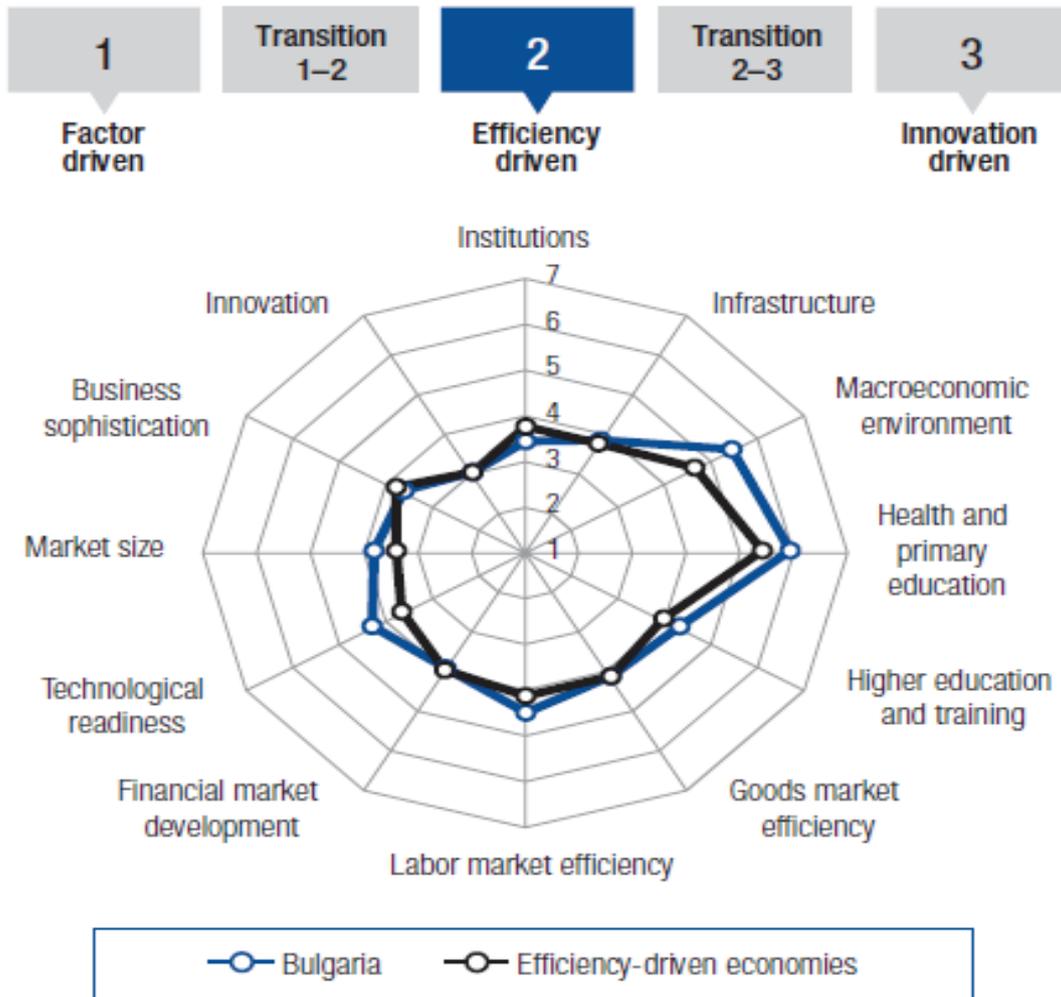


Fig. 1. Results for Bulgaria

Source: *The Global Competitiveness Report, 2012 – 2013*, p. 120

(6th column), efficient and flexible labor markets (7th column), developed financial markets (8th column), extensive internal and external markets (10th column), the ability to implement new technologies (9th column). While at this phase, however, Bulgaria is in 74<sup>th</sup> place in the WEF ranking.

The reason is that *our country does not perform very well in terms of almost all of the indicators*. Above average compared to other countries with a similar level of economic development are indicators such as Bulgaria's macroeconomic stability, health and primary education, technological

readiness and effectiveness of the labor market. According to the report in the last 5-6 years, Bulgaria's position is good in terms of macroeconomic policy, data regarding public debt management, budget deficit, etc. Other indicators suggesting the country is well positioned are technological readiness regarding the number of Internet users per capita, number of users of broadband internet, internet speed, etc., labor market efficiency and flexibility, the proportion of women in the workforce, the costs of recruitment and laying off, relationship between wages and productivity - flexible practices in setting wages, etc., results are high in terms of health and primary education, in particular indicators regarding the number of enrolled in primary education, protection and prevention against AIDS, eliminating malaria, etc.

At the same time highly unsatisfactory are the indicators for institutions, infrastructure and level of innovation. For the institutions column most problematic are the complex administrative procedures, ineffective and cumbersome judicial system, lobbying and the spread of corruption, existing problems related to the inefficient legal framework for resolving commercial disputes and the low degree of independence of the judiciary. Regarding innovation Bulgaria is far behind in most indicators – the measures are insufficient, the most serious problem is the lack of a connection between business and science, opportunities for scientists and engineers are limited, etc.

### 3. TOWS Strategic Alternatives Matrix

Once we assess the positioning of Bulgaria in the WEF Report and see in which areas of the Bulgarian competitiveness

advantages and disadvantages can be observed, an effort could be made to enrich the analysis with the use of an instrument of strategic management, such as the so called **TOWS** matrix of relations<sup>2</sup>. The ideas in the Report would rather be enriched by it through the separate formation of internal strengths and weaknesses in the competitiveness of Bulgaria, by seeking opportunities and threats facing it in a global scale and a by reaching a framework for the development of a possible national strategy for competitiveness. Similar to the development of a strategy for a company, industry or nation, it is necessary to perform a systematic analysis of strengths (S) and weaknesses (W) of the respective system and the national economy (competitive advantages and disadvantages), which in turn is set under conditions of outside opportunities (O) and threats (T). These four groups of factors may be shown in the following table please see Table 2:

These factors may become the basis for four different strategies. The most favorable situation will be if a nation uses its strengths (S) by taking advantage of external opportunities (O). This is the so called **S-O Strategy: maxi-maxi**, because the country is using its capabilities to enhance its strengths. In a competitive environment, the national economy or nation can deal with the threats (T) by using its strengths and such a situation is considered to be the so called **S-T Strategy: maxi-mini**, and the goal is to increase strengths and to reduce threats.

As for other situations - in the presence of weaknesses (W), which need to be addressed, an advantage may develop from the external opportunities, or the so

<sup>2</sup> For more information please see: [http://www.mindtools.com/pages/article/newSTR\\_89.htm](http://www.mindtools.com/pages/article/newSTR_89.htm)

Table 2. TOWS Strategic Alternatives Matrix

	<b>Outside Opportunities O</b>	<b>Outside Threats T</b>
	<ol style="list-style-type: none"> <li>1. Targeted integration policy of the EU</li> <li>2. Absorption of EU funds by Bulgaria</li> <li>3. Improvement and harmonization of Bulgarian legislation</li> <li>4. Openness of our economy</li> </ol>	<ol style="list-style-type: none"> <li>1. Problematic application of EU legislation</li> <li>2. Difficult access to funding</li> <li>3. Differences in international practices and standards</li> <li>4. Lack of strategic partnerships for business</li> </ol>
<b>Internal Strengths S</b> <ol style="list-style-type: none"> <li>1. Stable macro-economic environment</li> <li>2. Efficiency of the labor market</li> <li>3. Favorable tax environment</li> <li>4. Technological readiness</li> </ol>	<b>S-O Strategy: maxi-maxi</b> <ol style="list-style-type: none"> <li>1. Stable macroeconomic environment and stable ED, improvement of the integration in competitive economies</li> <li>2. Flexible labor market, positively enhanced industry, infrastructure, human resources and entrepreneurship</li> <li>3. Stable macro environment, application of EU policies and absorption of funds</li> <li>4. Educational and informative campaign for a more efficient use of information technology by business</li> </ol>	<b>S-T Strategy: maxi-mini</b> <ol style="list-style-type: none"> <li>1. Change in the needs for funding, concentrated towards real proposals with available financial resources.</li> <li>2. Creation of value through the improvement of knowledge, more opportunities for everybody.</li> <li>3. Strengthening of EU development policies of administrative and economic regions</li> <li>4. Favorable taxation attracting investors</li> </ol>
<b>Internal Weaknesses W</b> <ol style="list-style-type: none"> <li>1. Corruption, ineffective government and bureaucracy</li> <li>2. Inadequate infrastructure</li> <li>3. Inadequately trained workforce</li> <li>4. Decreasing innovations</li> </ol>	<b>W-O Strategy: mini-maxi</b> <ol style="list-style-type: none"> <li>1. Creation of a centralized body to ease the management procedures of the funds from EU</li> <li>2. Better opportunity for allocation of funds for basic infrastructure resulting in harmonization with EU</li> <li>3. Support of the companies through incentives for innovations, forms and transfer of technology</li> <li>4. New industrial policy to encourage an innovative and environmentally friendly European economy</li> </ol>	<b>W-T Strategy: mini-mini</b> <ol style="list-style-type: none"> <li>1. Accelerated improvement of the administrative capacity in key areas of state management, regulatory bodies and judiciary</li> <li>2. Measures for rapid application of actions for improvement of the business environment by decreasing the bureaucratic obstacles when starting and terminating activities</li> <li>3. Provision of strategic lifelong learning</li> <li>4. Provision of long term stability of the public finances</li> </ol>

called. **W-O Strategy: mini-maxi**. Such a strategy can be seen as a development plan where the weaknesses are converted or transformed into strengths. The worst situation caused by links in the matrix is when a nation is placed in a situation of external threats and internal weaknesses, or the so called. **W-T Strategy: mini-mini**. The strategy here for the national economy

is to minimize internal weaknesses and external threats.

We can use the framework that the matrix provides us to analyze the competitiveness of Bulgaria and to present practical options for strategies that could improve it.

**3.1. S-O.** Based on the study and on WEF Global Competitiveness Report, the internal strengths of Bulgaria's competitiveness,

along with the external opportunities that are in the targeted integration policy of the EU, absorption of EU funds by Bulgaria, improvement and harmonization of Bulgarian legislation, opportunities offered by the Single European Market to open our economy provide for the formation of the best possible strategy for Bulgaria. This strategy will lead to a situation in our national economy where stable macroeconomic environment is a prerequisite for sustainable growth in real GDP in the country, and hence for stable economic growth in the long run. Combining the integration policy has an even more serious impact on the opportunities to achieve economic growth and improve competitiveness. Integration policy leads to the achievement of national objectives, while instruments such as the Structural Funds and the Cohesion Fund are the main ones that fund the development of the regions (as available national resources are not sufficient for this). Given that such instruments are not able to fully solve the existing problems, attention is focused on the balance between maintaining fiscal discipline and accelerating the pace of development, so as to catch up with that of other EU countries and to increase integration. As a result of the policies in Bulgaria the National Strategic Reference Framework, Operative Programs and the National Reform Program are developed and adopted. The results of these opportunities can be specifically indicated in realizing large-scale infrastructure projects to help regions exploit their economic and support environmental projects in underdeveloped regions of Bulgaria, the directives on drinking water and the treatment of wastewater in rural areas. Combining the strengths of internal integration policy is

directed not only towards GDP growth, but also towards helping regions exploit their economic potential and helps to ensure sharing of benefits of economic growth.

The flexible labor market ensures that growth is accompanied by improved living standards, quality of life, balanced territorial development in accordance with the natural and physical assets of the regions as part of the Single European Market. The measures in terms of human resources for overcoming the crisis and in particular the management of unemployment, higher institutional coordination in the management and implementation of projects to optimize labor market improvement and harmonization of Bulgarian legislation and other measures may be a form of success.

**3.2. W-O.** Another possible strategy for our competitiveness, where the weaknesses of our national economy are minimized and it enjoys the advantage of opportunities, is one where action is taken to create a central body to streamline the procedures for the EU funds management mechanisms. The basis for better absorption are the measures associated with an increased coordination mechanism, optimizing legislation on public procurement, streamlining the procedures for the selection of contractors, simplifying the payment mechanisms. Moreover, this strategy should contain unification of procedures by creating a national methodology for imposing financial corrections and single time limits for the verification of costs and payments to beneficiaries and others.

More attention is directed towards the increasing opportunities for allocation of funds for basic infrastructure, which will lead to the harmonization with EU countries, in particular those which are in their second

competitiveness phase. The external impact of the adopted strategy "Europe 2020" requires, in the achievement of sustainable and intelligent growth, our country to concentrate EU and national resources on particular priorities, according to their specific challenges. It is necessary to invest funds, specifically for education, training and research, transport infrastructure and environment infrastructure.

Furthermore, the strategy should rely on policies to promote technological development and innovation, which should become a priority of the government - to support the companies through measures directed towards the promotion of innovation and technology transfer. The low level of innovation in Bulgaria, which is shown in the WEF Report, indicates that application of the ideas for a new industrial policy to promote the efficiency of our economy in Europe.

**3.3. S-T.** The **S-T** strategy for Bulgaria is essential given that opportunities to enhance the strengths of our competitiveness by overcoming external threats and difficulties are a complex challenge. The stable macroeconomic environment and favorable tax environment will change funding needs and our country will concentrate on real investment proposals using the possible financial resources. Foreign companies seek fulfillment on the international markets, including the Bulgarian one, because of the difference in production costs, purchasing power, economies of scale, access to the application of technology, services, financial resources and more. Differences in the implementation of the EU legislation, e.g. parallel to the introduction of European standards and commercial practices, participation in international

trade organizations and negotiations, the development of common positions is possible to yield positive results for the economy in the future.

Bulgaria boasts macroeconomic stability, a relatively skilled workforce with relatively low wage costs, so natural resources as the main competitive advantages would lead to the creation of strategic partnerships of the business to help stimulate foreign investors and entrepreneurs. The combination with a favorable tax climate will attract foreign investment and redirect external financial flows to our national economy. Of course, if it is not perceived as a sufficient signal from the outside, then the fact that even in times of economic crisis and uncertainty, Bulgaria maintains attractive tax rates and fiscal discipline is a positive signal to foreign investors.

It is also necessary to take into consideration the competitive advantage of the flexible labor market, which predisposes the creation of value through growth of knowledge. In perspective this creates further opportunities for all members of society. The aim is to improve the quality of life in Bulgaria through the improvement of human capital, reaching higher levels of employment and productivity, improve the access to quality education and lifelong learning, and promotion of social inclusion. In performing such a strategy the labor supply of higher value and quality of the workforce increases; investment in human capital through better and more accessible education is enhanced.

**3.4. W-T.** The fourth strategy drawing on minimizing internal weaknesses and external threats to competitiveness is the most difficult one which therefore requires most efforts. Its achievement may be

based on the accelerated improvement of the administrative capacity in key areas of government, regulation bodies and the judiciary. The present situation in the world economy is such that the state expands the scope of its responsibilities, on the one hand, and on the other hand, global interdependence is increasing, which means that shifting the weight focus from central government to local authorities and to individual sectors occurs and central governments increasingly reallocate capital flows to local communities that can manage them more effectively. Of course governments do not always take the same action to solve problems amid crisis although they try to apply some common approaches based on innovation, revision of operational models, targeted support to strategic sectors, etc.

The minimization of weaknesses is taken into account in the policy currently conducted towards improving public finance management by creating the necessary conditions and prerequisites for a sustainable medium-term public expenditure framework, sustainable process of cost planning of the First Level Authorizing Officers for Budget Loans on policies/programs and transition to a sector approach to planning and budgeting. It is strategically necessary to improve the budget legislation and methodology, and include all First Level Authorizing Officers for Budget Loans in the process of programming and result-oriented budgeting. Negative externalities are practically minimized with Bulgaria's support and the discussion within the EU on the effective and efficient use of public finances and cost structure.

Considering the complicated circumstances in Bulgaria's economy and

the importance of the issue to boost our national competitiveness, it should be seen as a major priority in the strategic and programmatic acts of government. These are the National Reform Program, the National Strategic Reference Framework (one of the Operative Programs - "Development of the Competitiveness of the Bulgarian Economy" is dedicated to this priority) and others.

Setting priorities and improving the regulatory environment is part of the strategy. Systematization of regulatory regimes, elimination of disparities between different documents and the improved coordination and links between institutions will increase their effective implementation and will also curb corruption and reduce business barriers. The organization of the process of improving the administrative environment and mainly entrepreneurship should include as a mandatory prerequisite the rapid introduction of modern means of communication in the administrative offices, which will facilitate firms' access to public services and documents (the role of e-government will be the leading one). Various ministries and departments, and individual municipalities should be more involved in the process of regime management.

In minimizing the weaknesses and avoiding external threats to our national competitiveness, measures are included as a strategy for the speedy implementation of actions to improve the business environment through policies aimed at innovation and reducing bureaucratic obstacles to the start or termination of business. Practically, this means promoting businesses through events that are directly aimed at the creation and development of innovative companies and transfer of innovation to other industries. It

is necessary to develop a system of tools that encourage technological development of companies with a group of measures such as: helping start-ups in technology incubators, providing grants, including cross-border for partial support of the most competitive ideas and products, creating conditions of risk finance for young companies, improving conditions for funding new technologies of the already well-established companies, establishment of a positive technological image of Bulgaria and providing institutional support for the entry of large multinational companies in the country.

### **Conclusion**

In a rapidly changing global economy each country needs to assess its comparative advantages and disadvantages and to be able to use them in a way that will provide an opportunity to enhance national competitiveness. This issue is particularly important and relevant for Bulgaria. Naturally, this is not easy to be achieved when put in such a way. It is not necessary only to find the strengths of our competitiveness, but also their *optimization*, reporting weaknesses and *overcoming* them in accordance with the external environment and challenges. The links in the matrix can generate different alternatives that are to become strategies for our higher competitiveness. As a conceptual framework for the systematic analysis, the matrix "meets" external threats and opportunities with internal strengths and weaknesses of competitiveness.

It is undisputed that Bulgaria should improve its strengths, those that underpin its competitiveness growth – a stable macroeconomic environment, favorable

tax environment, flexible labor markets, the growing interest and need for the introduction of new technologies and upgrading of production, openness to foreign markets, participation in international networks, etc., and overcome its weaknesses – low productivity and relatively low competitiveness, based primarily on cost factors, the insufficiently favorable business environment, the deterioration of the quality of human resources, insufficiently effective public administration, etc., in accordance with the opportunities and threats in the external environment. What should not be ignored is that the combination of these factors may require a different strategic choice. It is that choice that should help improve our competitiveness and become its driving force.

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