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## Bulgaria as a Target for Foreign Direct Investment



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# 1 Introduction

## 1.1 Problem Definition

In the context of the rapid acceleration of globalising economic activities, during the last decades, the global foreign direct investment (FDI) inflows have increased substantially (nearly 100-fold) from USD 13,418.43 million in 1970<sup>1</sup> to USD 1,537,900 million in 2007<sup>2</sup>. This was the first time that global inflows surpassed the USD 1.5 trillion mark.<sup>3</sup> According to the UNCTAD World Investment Prospects Survey, this observable trend should continue up to 2009, due to the fact that most of the transnational corporations expect to increase their FDI expenditures. Another important finding of this survey is that the most marked increase in strategic investment preferences for FDI locations will be observed in the new EU-12 countries<sup>4</sup> and in South East Europe.<sup>5</sup>

This Master Thesis will analyse the attractiveness of Bulgaria as a target country for foreign direct investment. As one of the two latest South East European countries which joined the EU in 2007, Bulgaria has made some significant progress in its policy environment: achieving one of the highest economic growths among the EU-27 (projected at 5.5% for 2008<sup>6</sup>), promoting private sector development through privatisation and deregulation, and creating a favourable business environment.

## 1.2 Goal of the Thesis

Based on empirical criteria concerning the attractiveness of Bulgaria as a location for FDI, such as its business environment, production conditions, current market conditions and the government incentives for investment encouragement the current Thesis aims at providing a comprehensive and objective picture of Bulgaria. It also points out some of its possible risk areas that would discourage foreign investors. With regards to the increased competition for winning new foreign investors, selected specific variables will be compared with two benchmark countries, Poland and the Czech Republic (resembling best practice in attracting FDI) and Romania, deemed to

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<sup>1</sup> See Figures in UNCTAD (2007a)

<sup>2</sup> See UNCTAD (2008)

<sup>3</sup> See *ibidem*

<sup>4</sup> The current number of EU Member States is 27, with the largest enlargement which took place on May 1, 2004, when 10 countries acceded and the last 2 countries, Bulgaria and Romania, joined the EU on January 1, 2007.

<sup>5</sup> See UNCTAD (2007), p.23

<sup>6</sup> See Chapter 5.1.1: Macroeconomic Factors

be at corresponding stage of development as Bulgaria. In this way, this Master Thesis will provide investors with insights not only into the country-specific criteria of Bulgaria, but also into its relative competitive position among the new EU-12, and will facilitate their investment decision taking.

### **1.3 Structure of the Thesis**

Chapter 2 will describe the theoretical background of the Thesis and will introduce the subject of foreign direct investment and the motives behind it. The second part of this chapter will inaugurate a catalogue of criteria for choosing the right location for FDI, based both on theoretical and practical approaches, and this elaborated model will be used later on as a basis for structuring Chapter 5.

Chapter 3 will outline a short profile of the Republic of Bulgaria by presenting its basic country data, as well as its present-day history, government and politics.

Chapter 4 will give an overview of the current FDI inflows and stocks by country of origin, by sector and by type and will furthermore bring forward the largest FDI investors in Bulgaria and their success stories.

Chapter 5 will analyse the factors determining the attractiveness of Bulgaria as a target for FDI and will point out its competitive advantages and setbacks in chosen areas, by drawing a comparative analysis with Poland, the Czech Republic and Romania. All factors will be clustered in the four categories “business environment”, “production conditions”, “market conditions” and “investment promotion government incentives”.

Chapter 6 will evaluate Bulgaria as a target for FDI based on a pan-European company survey, exclusively conducted in the context of this Master Thesis, summarising its key findings.

Chapter 7 will present a SWOT analysis of Bulgaria and as a conclusion will give an overall investment recommendation.