

CENTER FOR THE STUDY OF DEMOCRACY

PUBLIC OPINION ON FOREIGN INVESTMENT

Direct Foreign investment in
the Transition Period: The Case of Bulgaria
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Compared with the other central and eastern European countries - Hungary, Czech and Slovak republics and Poland, foreign investment turns to be a new phenomenon for the Bulgarian economy. Thus the public opinion on it is in a process of forming. The role of researchers, different studies, the mass-media and foreign investors, themselves, in inspiring public support and acceptance of foreign investment is of great importance. This will contribute to the success of investments that have been made as well as to their further attraction to the country.

A brief overview on the press shows the existence of two types of information - articles and writings introducing the country as an unattractive site for foreign investment and their volume as rather inconsiderable. On the other hand there are successful examples for some companies in the country. The number of the analytical articles and scientific publications that throw light on the necessity of foreign investment is insufficient. There is a lack of information depicting the experience of the other countries in this field - the means of public policy for promoting investment, data on the state of the international credit markets, etc.

In April 1993, the Center for the Study of Democracy (CSD) conducted its second public opinion poll on the Privatization and Economic Reform. It was sponsored by CIPE and ICEG and included a set of questions related to foreign investment. The sample (N = 2000) is nationally representative and the sample methodology employed: two stage cluster sample. Information was collected by face-to-face interviews.

A similar method and questionnaire were employed in a survey on Privatization conducted in 1992. This makes a considerable portion of the data from both surveys comparable enabling the exploration of some tendencies. The issue of foreign investment has been addressed several times in the surveys conducted by CSD over the past three years. The present analysis draws on those previous surveys, as well as on the one conducted in April, 1993.

1. PUBLIC OPINION (PO) IN BULGARIA: GENERAL REMARKS

For a better understanding of public opinion in Bulgaria with respect to foreign investment certain **general public opinion characteristics** as exemplified in polls should be taken into consideration:

- (1) PO in this country is to a considerable degree *conservative* and *inert*. Conservatism and inertia extend predominantly over politically related issues, and that usually brings about a marked split of the public on many strategic problems of post-communist transformations. These characteristics could be explained in several ways, but the dominant implication is that practical level experience is usually derived from socialist values, while the just-emerging frame of reference still has a limited empirical background.
- (2) The opinions of many social groups are highly *controversial*, i.e. the split of the public on the societal level is often reproduced on the personal level. New realities are unproblematically combined with the old ideals. Many find the explanation in the near past when basic non-ideological landmarks were destroyed and in the instability of the newly-emerging ones.
- (3) **Political polarization** is a determining factor. Party affiliation has a strong influence on all non-political issues. Very often, political attitudes override people's immediate economic interests.
- (4) Another PO feature is *etatism*. As in other East European countries, a considerable portion of the population (some 45-55 per cent) favour state intervention in the economy. Most polls show that the public in general has a predominantly leftist value orientation.
- (5) PO tends to be very *sensitive to the actual positions of public officials* in the power hierarchy. Even newcomers on the political scene receive high confidence scores as soon as they come to power.

2. STRUCTURE AND DYNAMICS OF PUBLIC ATTITUDES TO FOREIGN INVESTMENT

Unlike Hungary, Poland, Czechia, and Slovakia, foreign investment in Bulgaria is, at least until the present moment, quite scarce. This makes the problem of risks and public attitudes theoretical rather than practical. Nevertheless, PO in the country on the issues of foreign investment is in many cases better structured than opinions on other elements of social and economic policy. The basic indicator for that is the portion of people who

"Don't know". The examination of "Don't know" rates shows that they are about 30 to 50 per cent in questions on privatization techniques, relations with the CIS, etc. while the respective rates in questions dealing with foreign investment are about 16% - 23%. The first PO data on foreign investment that could be treated as initial basis, come from CSD's post-election survey of the summer of 1990 ¹. Results from the survey are in many respects symptomatic. To the question of whether the country's economy can recover without foreign investment 26.3 per cent say "Yes" and 52.1 "No" (21.6% "Don't-knows"). It could be assumed that the configuration has remained unchanged over the ensuing three-year period. The following distributions were obtained on the question whether the country needs foreign investment:

	spring 1990 ²	spring 1991 ³	fall 1991 ⁴	spring 1992 ⁵	fall 1992 ⁶
Yes	65.9%	62.6%	62.0%	63.0%	65.1%
No	18.0%	20.4%	19.5%	16.9%	16.9%
DK	16.1%	17.0%	18.5%	20.1%	18.0%

Data in the table show, a strong positive attitude towards foreign investment throughout the entire three-year period.

A point of interest would be to compare the opinion of the country's business elite. Although foreign investors are seen as competitors, the attitude to foreign investment is quite positive. 28.8% of the 1200 interviewed think that foreign investment would only have positive effects, 61.7% think the effects would be both positive and negative, and only 4% think foreign investment would have only negative social and economic effects.⁷

3. EXPECTED EFFECTS FROM FOREIGN INVESTMENT

Most generally attitudes towards foreign investment could be assessed by the perception of the public of the expected results from its operation in the country. To the

¹ During the 1990 elections the Bulgarian Socialist Party, former Communist Party, won more than 50 per cent of the seats in Parliament.

² CSD survey December 1990

³ CSD survey April 1991

⁴ CSD survey Noblemen 1991

⁵ CSD survey March 1992

⁶ CSD survey September 1992

⁷ CSD survey Noblemen 1992. This sample consists of 600 state enterprise managers and of 600 owners of private firms.

question of whether foreign investment will be potentially dangerous to the country in April 1991, 35.7% answered "Yes" and 45.0% "No". The same question was posed in the fall of the same year ⁸, and 32.9% gave positive responses and 44.2% negative. The respective distributions of March 1992 are 30.1% and 41.5%.

As far as the potential dangers are concerned, the evident increase of the amount of foreign investment flowing into the country has not influenced significantly people with negative attitudes. Public distrust and criticism are in this respect consistent with the general tendencies of PO. A considerable portion of the population has a negative attitude towards all changes. The assumption is that changes have the single purpose to benefit the West. In September 1991 16.0% agreed completely with the statement "The West is only taking advantage of us", 15.8% agreed somewhat, 49.9% did not agree, and 19.3% were not sure.

It is interesting to examine employees' expectations as to the consequences from potential buy-outs by foreign companies. The April 1993 survey shows that 24.8% expect staff cut-downs, 17% expect a wage increase, 15.6% think that labor discipline will improve, and 14% think quality will improve. According to employees significant changes in the production process will be introduced if the enterprise is bought by a foreign investor. Most of them expect positive effects in the economic situation of the enterprise: labor optimization, reducing bloated staff, improving work discipline. On the personal level, however, some employees expect negative effects. The fears of mass layoffs, labor intensification, etc. are all reasons making the work in a foreign company a low preferred alternative.

Answers to the question "*Whose property would you like the enterprise you work in to be?*" are as follows:

- state-owned	34.7%
- it does not matter	23.2%
-private (Bulgarian)	8.1%
- employees as shareholders	6.8%
- with foreign participation	6.2%
- private, sole proprietor	4.4%
- cooperative	4.4%
-other	5.0%
-DN	7.2%

⁸ CSD survey November 1991

An important indicator of the effect from foreign investment is its estimated impact on the power structure of the economy at present and in five years time. An attempt to indicate public perceptions and future expectations of the relative influence of different groups was made with the question: "How would you assess the influence the following groups have in the economy (at present! in five years time)?" The respective distributions obtained are as follows:

	In 5		In5		In 5		In 5	
	Now	Years	Now	Years	Now	Years	Now	Years
	Big	Big	Average	Average	Small	Small	DN	DN
Bankers	42.9%	51.9%	17.0%	9.0%	8.5%	2.6%	30.7%	36.5%
Public Officials	37.7%	21.8%	17.3%	18.8%	13.5%	18.6%	31.5%	40.1%
Black Marketeers	55.6%	1.2%	11.0%	10.6%	10.8%	30.1%	38.2%	22.6%
Politicians	51.9%	33.3%	16.2%	19.6%	9.0%	11.1%	22.9%	35.9%
Foreign Investors	15.7%	39.0%	13.3%	13.9%	31.3%	6.8%	39.7%	40.3%

The role of foreign investors according to the public is insignificant at present. Only 15.7% think it is significant. The dominant roles in the economy are attributed to black marketeers (55.6%), politicians (51.9%), bankers,(42.9%).

Most people expect a radical change in the situation in five years. Bankers will supposedly assume a dominant role, while the influence potential of black marketeers, politicians and public officials is expected to fall in relative terms. The public expects a most serious change in the role and influence potential of foreign investors: they will be the "second power" in the future power structure of the economy.

As the comparison between the opinion of the general public and the business elite on the present role of foreign investment in the country shows, the latter give greater importance to foreign investors. 12.9% think foreign capital already has an important role, 20.6% think it is of average importance, and 55.1% think its role is yet insignificant.

PO polls on foreign investment have registered a phenomenon typical of other debates on economic issues. Whenever the question is posed in abstract terms, e.g., "Is foreign investment necessary for Bulgaria?", or "Do you approve of foreign investment coming to Bulgaria?", then positive attitudes account for some 60%. If, however, questions address the personal level, the situation changes significantly, and tolerance falls abruptly.

The data of CSD's fall 1991¹⁰ survey are quite indicative in this respect. The distribution on the question "*Should foreign citizens be granted ownership rights?*" is as follows:

Yes, they should	35.4%
No, they should not	41.9%
DN	22.7%

The distribution on the question "*Should foreign citizens be allowed to purchase land?*" is even more indicative:

Yes, they should	9.7%
No, they should not	66.7%
DN	23.6%

The same questions were included in the spring 1992 survey¹¹, and the similarity of the results prompts the assumption that PO is in this respect relatively stable. The distribution on the first of the above questions (of foreign citizens' ownership rights) are the following:

Yes, they should	22.3%
No, they should not	64.4%
DN	13.3%

And on the second on land ownership:

Yes, they should	8.7%
No, they should not	77.7%
DN	13.6%

Considering the above data, one should have in mind that, unlike Poland, Hungary, Czechia, and Slovakia, there have been practically no significant purchases of property, or even stated intentions for such purchases. It should also be noted that despite the negative PO attitude to the possibility for foreign citizens to become owners, the Bulgarian Law in Foreign Investment (adopted in 1992) is perhaps the most liberal in Eastern Europe.

¹⁰ CSD survey November 1991

¹¹ CSD survey March 1992

4. DIFFERING OPINIONS ON FOREIGN INVESTMENT

PO on foreign investment is not homogeneous. Different social groups hold differing views on the issue. Basically PO on foreign investment is conditioned by education, occupation and ethnic background.

First, attitudes towards foreign investment are better structured among men: 18.7% do not express an opinion, while among women this share is 29.4%. Women have made progress in this respect, however, as far as in March of 1992 about 36.2% did not express a definite opinion.

The majority of the group of ethnic Bulgarians does have a definite position on the issue, whereas the majority among ethnic minorities has not formed its attitude yet. Only 19.3% of the Bulgarians do not have an opinion, while among ethnic Turks the percentage goes up to 52.2%, among Pomacks it is 57.1%, and 48.5% among Gypsies.

The higher the level of education and training, the more active and informed people are. Only 6% of those holding university degrees do not express a definite opinion on foreign investment, whereas the percentage among those without education (people with less than 4 years of schooling) is 74%.

The negative attitude to foreign investment is more widespread among older people. Young people aged 20 and under are the most optimistically minded - 61% think foreign investment would have beneficial effects. The share of those who favor foreign investment among the population aged 20 to 30 is almost the same, among those aged 31 to 40 it is 58%, 41 - 50 44.8%, 51 - 60 36.5%, and those above 60 - 27%.

Evidently, demographic characteristics are strongly interrelated with the opinions on foreign investment. Positive attitudes towards foreign investment are delimited to specific population groups. It is highly unlikely for ethnic minority groups or lower-education groups to assume a more structured attitude in the near future, given the already demonstrated tendencies.

Second, social status is another major factor in the formation of an attitude to foreign investment. Those who identify themselves as belonging to the upper class are most in favor of foreign investment - 80%, with only 20% holding the opinion that would be potentially dangerous. Among workers the respective ratio is 35.9:37.9, and among the middle class it is 61.4:26.3.

Those who have started their own business understand better the need for foreign investment than employees in state enterprises. 75% of private entrepreneurs and a mere 34% of state sector employees favor foreign investment. Those who express a

positive attitude to the development of the private sector are also extremely supportive of the in-flow of foreign investment, considering it a force promoting private initiative and entrepreneurship, a vehicle for expanding the private sector in the economy, and a decisive factor for the success of economic reforms. 73.9% of those who favor full privatization of the economy have indicated that foreign investment would only have positive effects.

Household incomes are another, be it indirect factor, for the formation of public attitudes towards foreign investment. 81.3% of those whose financial conditions have improved and only 23% of those whose conditions have deteriorated think foreign investment is useful. These attitudes are preconditioned by the overall negative attitude to the changes in the economy, rather than by a well-formulated position on the issue of foreign investment.

Third, PO on foreign investment is defined within the context of the general attitude towards the economic reforms. Those in favor of a market economy, privatization, the land reform, etc., are to a large extent supportive of the idea of a massive inflow of foreign investment. 62% of those who consider free market economy the right reform alternative think foreign investment is beneficial and only 26% think would be potentially dangerous. Conversely, only 26.2% of those disapproving of a free market economy are in favor of foreign investment and 54.3% think would be potentially dangerous.

A similar relationship is observed in distributions on the question *"Are you satisfied with the economic reforms in the country?"*

	Foreign investment is useful	Foreign investment is dangerous
Very satisfied	67.9%	25.0%*
Somewhat satisfied	65.1%	25.1%*
Somewhat dissatisfied	47.9%	32.8%*
Complitly dissatisfied	35.6%	43.4%*

* The remainder (to 100%) have not expressed an opinion.

CSD April, 1993

Only 31.8% of those who think that things have gone worse after the 10th of November 1989, favor foreign investment, compared to 64.9% of those who think conditions have improved.

Fourth, PO on foreign investment is very much dependent on political affiliations. This is also a general tendency of PO and attitudes in the transition period. Those who oppose the new political system are much more negative towards foreign investment as it is part of the system they do not approve of in principle. A mere 25% have said that

foreign investment is useful. 60% of those in favor of the new system are also in favor of foreign investment. The political tinge in all PO matters is even more evident if the question whether socialism has future in this country is posed. 61.5% of those who have respond positively to this question consider foreign investment dangerous. Of those who reject socialism completely only 19% think foreign investment is potentially dangerous to the country.

The natural conclusion to draw is that those most closely connected with socialism and communism, former socialist (ex-communist) party members are the most distrustful of foreign investment.

Which political party would you vote for?

	FI is useful	FI is dangerous
Union of democratic forces	67.1 %	20.0% *
Bulg. socialist party	24.1%	58.2%*
Agrarian party	36.8%	41.2%*
Bulg. business block	53.0%	33.3%*
Bulg.social democratic party	78.6%	14.3%*

* The remainder (to 100%) have not expressed an opinion.

CSD April, 1993

The political stratification of PO on foreign investment is strongly influenced by the political platforms and the direct action of parties and their leaders. Some parties still can hardly accept the fact that foreign investment is necessary for the recovery of the economy and for the development of the private sector. Along with the delusions that we "will manage on our own" and the nostalgia for the idealized past, negative attitudes towards everything new accumulate in a large share of the population. They will probably grow stronger as dissatisfaction with reforms rises. It could therefore be assumed that political factors will continue to play an important role shaping PO on foreign investment. The possibility of heated political debates that could considerably influence the current liberal policy to foreign investment should not be rejected.

5. PUBLIC OPINION ON THE PREFERENTIAL TREATMENT OF DOMESTIC AND FOREIGN BUSINESS

PO on the treatment of investment in this country reveals general views and an overall acceptance towards investment. As a rule, those who disapprove foreign investment do

not accept preferential treatment as an option. What is more important is that the majority of those in favor of foreign investment are also opposed to preferential terms.

The general attitude of the public is not in favor of protectionist trade or tax policies. As much as 98% of the businessmen polled consider that domestic business should not be given advantages over foreign business. However, the majority of the respondents are also against giving any preferential treatment to foreign capital.

Only 24 % of the "business elite" support the view that tax breaks should be granted to foreign investors; 20 % favour interest rate subsidies, 12% are for preferences for payment of the rent, 23% favour preferential treatment of foreign firms in the privatization process.

The only subsidies which are supported by the Bulgarian business elite is in the promotion of foreign investment in some underdeveloped regions of the country, in conformity with the regional policy of the State.

The "business elite" study indicates that the degree of approval for foreign investment also differs between different sectors of the economy. Generally speaking, the public's view is that foreign investment should be restricted as far as transport, power supply, radio and television are concerned. For these sectors, the negative ratings are twice higher than the positive ones. The inflow of foreign investment in heavy industry is generally supported.

6. ATTITUDES TOWARDS FOREIGN INVESTMENT WITH DIFFERENT COUNTRY ORIGIN

Reviewing the expectations and attitudes of the public towards foreign investment, we should touch upon another very important aspect - the differential attitude towards foreign investment depending on its national origin.

The studies show that throughout 1990-1992, the public maintained a relatively realistic view about the national origin of foreign investment prevailing in the country. The question: "*Which country do you consider is most actively involved in Bulgaria's economic life?*" produced the following distribution:

1990	1991	1992		
Germany		23.9%	23.2%	24.5%
USA		16.1%	17.3%	15.9%
France		10.5%	5.3%	6.0%
Japan		6.5%	1.3%	, 2.3%

The table above shows that according to the public the prevailing investment is from Germany, and that coincides with the official data by 1992. This can be explained by the fact that during the 1980s Germany was Bulgaria's second most active trading partner after the **CMEA** member-countries. The list above, however, omits Austrian investment which also has a considerable share in the Bulgarian economy.

The favour of German investment could be attributed to the fact that Germany has maintained traditionally good relations with Bulgaria ever since the latter's liberation from Ottoman domination in 1878. It should also be noted that the positive attitude towards German investment remains stable and favorable throughout the whole period under review.

On the preference side the situation is similar. Below following is the distribution to the question:

"What country would you prefer the foreign investment to come from?" (multiple answers are accepted):

Germany	42.3%
U.S.A.	35.2%
France	18.7%
Britain	18.1%
Japan	17.0%
Austria	11.1%
Italy	10.5%

CSD November, 1992

The U.S.A. appear as the second most preferred country and, just like Germany, it has been positively evaluated by a constant share of respondents over the past three years. This fact should rather be attributed to the leading position which the US has on the world scene and to the proliferation of American consumer culture than to its real economic presence in this country.

French investment ranks third in the mind of Bulgarians. From the third position downward, the shares are usually smaller than 2% and the overall picture is rather inconstant and diverse - Austria, Italy, Greece and the Arabian countries (taken as a whole) often change their places.

The investor's national origin influences the opinion of the "business elite" as much as the public, in general. Bulgarian businessmen prefer to do business with partners from the developed countries, among which Germany ranks

first followed by the U.K. and France; the US and Japan rank fourth. Bulgarian businessmen demonstrate lowest interest and confidence towards Romanian businessmen (only 12.2% of the respondents), Arabian (25.6%), Turkish (31%), Russian (31)% and Greek (36%).

The assessment of what impact FI from different countries would have varies considerably. The table below shows the distribution to the question: *"What in your opinion would be the effect, if FI from the countries listed below flows into the country?"*

Country	Positive effect	Negative Effect
Germany	72.8%	0.9%
France	53.7%	1.8%
USA	50.8%	4.6%
U.K	47.7%	3.9%
Italy	41.2%	4.8%

CSD November , 1992

The "business elite" approves of investment coming from the above countries. Assessments of different countries vary by geopolitical orientations. The country-to-country differences are determined by the experience of the Bulgarian business community and its contacts with foreign partners. In this respect Germany is best known. Respondents consider all countries listed in the table above highly effective economies with advanced technologies, industrial culture and qualified labour force. And that preconditions a generally positive attitude towards the respective countries. Political affiliation also influences people's attitude towards the national origin of foreign investment. The supporters of the UDF are more positive towards investment coming from the US, while BSP supporters are more tolerant towards Russian investment.

Political affiliation does not influence substantially the attitude towards German investments. Some 84% per cent say the inflow of German investment in the country would only have positive effects. Public opinion towards US investment is also stratified on political grounds. Less than 2% of UDF supporters believe that US investment will have a negative impact on the economy, as against 1 % of BSP supporters. In April 1993, despite the rift between the UDF and MRF, the UDF followers (36%) showed the greatest support (in relative terms) for Turkish investment as compared to the other political groups (cf 10 % of BSP supporters).

7. PRIVATIZATION AND FOREIGN INVESTMENT

The state of the Bulgarian economy gives no grounds to believe that it will prove attractive for foreign investors. Adding the unstable political situation, the rapidly changing tax legislation, the badly performing state-owned enterprises etc., it seems unrealistic to expect that foreigners will show interest in state-owned enterprises.

Nevertheless, the data on partnerships with foreign participation (under and above 50%) indicate a growing interest in investing in this country. Their total number exceeded 3 500 by the end of February.

A considerable part of foreign investment inflows rather takes footholds, creating a new market environment and new economic units (the so called "green field investment"), than setting up joint partnerships with Bulgarian participation. The lack of privatization space for foreign investment has led to the inflow of many but small-sized investments. Importing mainly consumer goods and services, they have taken the "cozy niches" of the still non-satiated market. Their impact on the general development of the market in terms of competition and quality of goods is still controversial. However, it is difficult yet to conclude that foreign investment has so far encouraged the restructuring of the economy, influenced the recovery of the economy, or conditioned the improvement of technologies.

Privatization is one of the basic mechanisms for the inflow of foreign capital, particularly when large capitals are concerned. The participation of foreign companies in the privatization process is preceded by preliminary investment estimates, considerable part of which are devoted to establishing contacts and analyzing the state of the enterprise subject to privatization.

The information which state enterprises provide about the interest they have attracted is of considerable importance for outlining the privatization expectations, particularly among decision-makers. The results of the survey conducted by the CSD among 600 state-owned enterprises in all branches of the economy shows that foreign partners have declared a privatization interest in 34,5% of the surveyed enterprises, Bulgarian private firms in 32,7% of the enterprises, and Bulgarian state-owned enterprises in 5.6% of the enterprises.

According to the managers of 11.4% of the state-owned enterprises, foreign companies are ready to buy the whole unit. Foreign buyers have declared their willingness to participate in the privatization of 23.1 % of state-owned companies through buying parts of them. It is worth noticing that only 30.1 % of the surveyed enterprises have not attracted any interest on part of the foreign investors, whatsoever. Foreign companies hesitate about the privatization of 13.8% of the enterprises.

Has your enterprise attracted any privatization interest on part of the following types of buyers?

	FOREIGN	BULGARIAN PRIVATE	BULGARIAN STATE
Ready to buy in whole	11.4%	7.2%	1.8%
Ready to buy parts of the enterprise	23.1%	25.5%	4.2%
Still hesitate	13.8%	9.5%	5.7%
No interest at all	30.1%	33.2%	57.8%
The enterprise won't be privatized	6.2%	8.2%	7.9%
No answer	15.4%	16.3%	22.6%

CSD November , 1992

Obviously, foreign investors and Bulgarian private firms will be the major agents and competitors on the privatization scene. While Bulgarian buyers are more interested in the privatization of parts of the enterprises, foreigners are ready to buy larger privatizable units in whole.

It turns out that the privatization of state enterprises attracts some interest, too. Its realization, however, depends on the pace of privatization, on the techniques employed, on the competitiveness of home buyers, and on the state policy towards the units concerned. The results of this study show that 8% of the state enterprises will not be privatized, according to their managers.

8. THE MOST ATTRACTIVE ENTERPRISES FOR FOREIGN INVESTORS

The results of above cited survey show that light industry is the most attractive. Foreigners are ready to buy 35.9% of the surveyed light industry enterprises, either entirely or partially. Buyers are hesitating about 21% of them and only 24.9% have not attracted any interest whatsoever. Considerable foreign participation in the privatization of the tourism industry can also be expected. Fifty percent of the surveyed 22 tourist companies have real chances to be purchased by foreign companies; 6 may be bought only partially; no information is available about 3 of them and only 2 are of no interest to foreign buyers.

Judging by the results of this survey, privatization of the heavy industry sector also has its chances. Foreign companies are ready to buy 8.3% of the enterprises in the heavy

industry entirely and 25% partially. The following branches have proved most attractive to the foreign investor: light industry, tourism industry and heavy industry.

Unlike foreign buyers, Bulgarian firms are most interested in the privatization of tourist facilities (private firms are ready to buy 80% of the surveyed tourist companies), banking (respectively 55.5% of the surveyed banks), public utility services (55.4%), trade (43.8%) etc. Obviously, industrial branches and larger capital-consumers are yet not attractive alternatives for the Bulgarian investor. This is due to the fact that the private sector still has a moderate investment potential and that Bulgarian capital is more attracted by sectors with small risk and faster return on investment. The survey confirms the assumption that Bulgarian buyers will be less competitive than the foreign buyers in the process of privatization.

It is logical enough to suppose that the most profitable and best-performing enterprises will be the most attractive assets of privatization. The interest of foreign buyers wanes with declining degrees of utilization of facilities. There are foreign buyers for 50% of the enterprises with the highest rate of facility utilization. But there is also keen interest in a considerable share (27.5%) of the enterprises with low degree of utilization of their production capacities.

The situation is quite the same as far as bankrupt enterprises are concerned. Foreigners are willing to buy entirely or partly 34.4% of the worst performing businesses and 33.4% of the most profitable surveyed state-owned enterprises. It is probably the lower price of firms in bankruptcy that heightens the buyers' interest in them. On the other hand, one could suppose that voluntary bankruptcies have had some impact on this seemingly illogical situation too.

Foreign buyers are most interested in buying export-oriented enterprises. Foreigners show interest in almost half of the monitored enterprises producing for the foreign market (45.5%) and only in 20% of those oriented entirely towards home markets. Bulgarian buyers, on the other hand, have greater interest for companies working for the home market.

The size of the privatizable unit is of considerable importance when choosing among privatization techniques, character and number of participants. Unlike potential Bulgarian buyers, who are ready to participate in the privatization of 23.2% of the big-sized enterprises (employing over 1000 people), the number of foreigners willing to do so is 40.0%. Foreign investors are interested in just one-fifth of the small-sized enterprises (less than 100 employees).

9. MOST UNATTRACTIVE ENTERPRISES FOR FOREIGN BUYERS

Foreigners are not willing to take part in the privatization of the agricultural sector. Public utility services and construction rank second as least attractive sectors, and transport comes third. These are branches of more or less regional character and therefore unattractive for foreign investors. Their revitalization requires state investment, mainly. In some countries, Greece and Rumania for instance, the inflow of foreign capital in agriculture, transport and energy supply is encouraged by preferential credit policy, tax allowances etc.

Substantial foreign investment and buying of small enterprises, including those working for the home market, can hardly be expected. Turkish and Greek investors make an exception in this respect, as it will be illustrated further below.

The results of the survey show that Bulgarians maintain a specific opinion towards investment coming from neighboring countries. Such investments are growing rapidly and account for the largest share of foreign investment registered last year.

10. INVESTMENT FROM THE BALKAN COUNTRIES

Bulgarians, in general, are relatively well-disposed towards foreign investment, but grow critical towards investment coming from neighboring countries. The distributions in the table below give an idea of the specific attitude of Bulgarians towards their neighbors.

What is your attitude in general towards the following countries?

	very good	rather good	rather bad	very bad	
MACEDONIA		23%	53%	6%	2%
GREECE		21%	53%	11%	5%
RUMANIA		8%	41%	28%	11%
TURKEY		12%	32%	35%	15%
YUGOSLAVIA		7%	32%	33%	19%

April 1993 Survey

The BSP supporters have a predominantly negative disposition towards Turkey, while the UDF have a similarly negative disposition towards Yugoslavia. Stratified by ethnic background, Bulgarians have negative feelings towards Turkey, while the Gypsy minority has similar feelings towards Rumania. It is worth noting that throughout the last three years the Bulgarians' negative attitude towards Turkey has declined substantially, especially since the summer of 1992. This situation comes as a natural

consequence to the 500-year Ottoman domination over Bulgaria which ended in 1878. Attention should be paid to the impact of the military and the ideological antagonism between the two countries during the years of communist rule as well as to the existence of a considerable Turkish minority in this country - 9,7% of the population according to the latest population census (December 1992). At present, Bulgarians' attitude towards Turkey is formed by the ethnic relations in this country. The last three years have witnessed a further improvement in the relations between Bulgarians and Turks, which has contributed to reducing the earlier suspicions towards Turks and Turkey.

A large number of Bulgarians (mostly BSP supporters) still have strong reserves towards Turkey. It was the Bulgarian Socialist Party that imposed foreign investment restraints of a minimum US\$ 50,000 in the first draft of the Law on Foreign Investment which, in tum, affected the interests of smaller potential investors from Turkey to the greatest extent. Backed by the BSP majority, the Parliament voted a paragraph in the new Constitution forbidding foreigners to buy land in Bulgaria. This action was prompted by the wide spread socialist thesis that the Turks were ready to buy land in border regions.

The "business elite" survey shows that the attitude of Bulgarian private entrepreneurs and managers of state-owned companies towards potential investment from neighboring countries is less dependant on geopolitical orientations than public opinion, in general.

The distributions to the question *"If you had an opportunity to choose between different partners, to what extent would you trust"* are as follows:

	great	moderate	small	none			
Representatives of Greek firms				9,6%	29,4%	24,9%	18,3%
Representatives of Turkish firms				5,6%	25,2%	26,6%	24,6%
Representatives of Romanian firms				1,3%	10,9%	18,1%	43,7%
(for comparison American firms)				29%	31,2%	8,6%	6,2%

CSD. November 1992 Survey

In the eyes of Bulgarian businessmen companies from Balkan countries do not enjoy great respect. They are much less favoured as partners than those from the US and Western Europe. Nevertheless, Bulgarian businessmen favour Greek companies much more than Turkish ones. In this respect Greece has another advantage over its competitor, Turkey - Greek capitals are preferred. According to the Bulgarian "business

elite", the inflow of capitals from these two countries would have positive or negative effects as follows:

	positive	positive and negative	negative
GREECE	24%	52%	16%
TURKEY	13%	43%	34%
USA (for comparison)	51%	37%	5%

CSD. Noblemen 1992 Survey

One of the reasons for investment from these two Balkan countries to be regarded with distrust is the general impression that Turkish and Greek businessmen are rather reluctant to reinvest their profits in Bulgaria and prefer to export them. According to many of the respondents, these businessmen make good use of the market deficits and economic collapse instead of bringing in something new.

A. *GREECE*

According to the CSD survey conducted in November 1992, Greek investors are mostly interested in the privatization of Bulgaria's light industry (44%), heavy industry (28%), tourism industry (11%) etc. Greek businesses are more ready to buy shares in profitable enterprises (64%) than in money-losers (29%). Greek companies prefer to take part in the privatization of firms servicing both the internal and external market (64%) and companies working entirely for the home market (23%). According to Bulgarian "business elite", Greek investors are interested in buying entirely or partly 17% of the Bulgarian enterprises. On issue, they come after German businessmen who are the indisputable leaders.

According to data collected by the Ministry of Finance by February 1, 1993, the total value of registered Greek investment for 1992 amounts to 46 million USD, which makes Greece the biggest foreign investor in Bulgaria. One should, however, bear in mind that hundreds of small-sized Greek investments, mostly small shops, have not been registered yet. Greek companies and joint ventures with Greek participation are located in big towns, mainly - Sofia, Plovdiv, Varna, the Blagoevgrad and Haskovo regions, situated near the two check-points on the common Bulgarian-Greek border, Kulata and Ormenion. Greek businessmen, for their part, come mainly from Northern Greece and Greek Macedonia.

A survey conducted in Greece by the Center for European Research (EKE) showed that 5,000 Greek companies were actively operating in Bulgaria by the beginning of 1993. In these terms, Bulgaria accounts for the main bulk of Greek investment on the Balkans. Asked "Which sector in Bulgaria do you consider is most advantageous for investment?", 32% of the respondents singled out the tourism industry, 27% trade, 13% agriculture, 12% light industry, 4% both heavy and military industry and 8% other sectors. The survey shows that Greeks prefer to invest in branches with by rapid rate of return and small risk. They are obviously oriented towards the "green field investment" approach and the explanation to this should be sought in the slow pace of privatization in Bulgaria.

B. *TURKEY*

The Bulgarian "business elite" survey of November 1992, shows that Turkish companies are willing to participate in the privatization of light industry enterprises (48%), heavy industry units (23%) and tourist facilities (12%). Sixty-three per cent of the respondents favour profitable enterprises and 29% money-losing ones. What characterizes Turkish companies, in contrast with the general trend, is their interest in the privatization of agricultural enterprises. About one-fourth of the surveyed agricultural units, have attracted the interest of potential Turkish buyers. According to their interest in Bulgarian companies, Turkish investors rate after Germany and Greece but come before the US.

Although Turkish businessmen favour investment in the developed industrial infrastructure, they still prefer "green field investment". Turkish investors in Bulgaria register companies with 100% Turkish stake, primarily. This is probably due to the negative attitude towards Turkish investment which still prevails among Bulgarians. Turkish business is most often engaged in bakeries, shops, small restaurants and sweet shops. As a whole, investments from this country are small in size. Turkish companies in Bulgaria are almost entirely located in areas populated by the Turkish ethnic minority. Potential Turkish investors are also interested in enterprises, set up in these regions. There are several explanations to this fact. Communication in Turkish is an advantage for such firms. Besides, they meet with a more amiable attitude among ethnic Turks. On the other hand, Turkish investors are part of the emigrants who left Bulgaria during 1950-1951 and 1969-1978 and are now coming back. Those who emigrated in 1989 have preserved their Bulgarian citizenship.

The former Turkish President Turgut Ozal and other state officials have so far repeatedly stated that Turkey will encourage investment in Bulgaria. The Turkish side has recently promised a credit line for Bulgarian ethnic Turks willing to buy land and immovable property. The Turkish government has developed and put in action an investment project for regions of compact ethnic Turkish population in Bulgaria. These regions are seriously affected by the economic crises and unemployment which forces the population to emigrate to Turkey. To stop the emigration surge, Turkey is developing a program which will be financed by the foreign-trade Eximbank. This program aims at facilitating Turkish investment in North- and South-Eastern Bulgaria.

The other Balkan countries had, just like Bulgaria, centrally-planned economies with an insignificant share of the private sector. Neither Rumania nor Albania, nor Macedonia or new Yugoslavia will be capable of investing in Bulgaria in near future. Nevertheless, a significant number of joint companies have been registered. Bulgaria's trade with Macedonia and Albania has invigorated a lot and Bulgarian-made commodities now account for the largest relative share of imports in both countries. The UN embargo against Serbia and Montenegro halted the progress of Bulgarian-Yugoslav trade. An outflow of capitals from Yugoslavia can be observed today. It is most likely that Yugoslav embargo-busters are now operating in Bulgaria but there are also signs of another process - Serbian citizens and firms transfer their hard-currency savings in Bulgarian banks as a consequence of chain bankruptcies in Belgrade.

Trade constitutes a major interest to Turkish and Greek companies. The expected privatization generates an interest in the light and heavy industries. Bulgaria's qualified and cheap labour force, and small transport costs heighten this interest even further. These two countries conduct investment promotion policies towards Bulgaria - some EC programs have been launched in Greece. No matter what the amount of investment from these neighboring countries is, the public opinion will remain rather sensitive on it.

CONCLUSION

Although Bulgaria still lacks great inflow of foreign investment, the public perception of it has already been formed. Low educated groups and ethnic minorities are less prepared to express a definite opinion on foreign investment. Public opinion in general is friendly and positive towards foreign capital but it differs among the different

population groups. Political affiliations and geopolitical orientations dominate in the assessment of foreign investment.

Foreign investors' high interest in the privatization of Bulgarian state enterprises, bankrupt ones included, is quite surprising. This interest is strongly affected by the delay of privatization and the bureaucratic obstacles that stand in the way of foreign capital. With the help of an efficient institutional system and promotional state policy, the foreign investor's interest can become an economic reality.

SURVEYS EMPLOYED:

CSD December 1990, sample (N = 1000), nationally representative. Sample methodology employed: two stage cluster sample. Information was collected by self-completion questionnaire.

CSD survey April 1991, sample (N = 1200), nationally representative. Sample methodology employed: two stage cluster sample. Information was collected by self-completion questionnaire.

CSD survey November 1991, sample (N = 900), nationally representative. Sample methodology employed: two stage cluster sample. Information was collected by face-to-face interviews.

CSD survey March 1992, sample (N = 1500), nationally representative. Sample methodology employed: two stage cluster sample. Information was collected by face-to-face interviews.

CSD survey September 1992, sample (N = 1500), nationally representative. Sample methodology employed: two stage cluster sample. Information was collected by face-to-face interviews.

CSD survey November 1992, sample (N = 1200), nationally representative. This sample consists of 600 state enterprise managers and of 600 owners of private firms. Information was collected by face-to-face interviews.

CSD survey April 1993, sample (N = 2000), nationally representative. Sample methodology employed: two stage cluster sample. Information was collected by face-to-face interviews.