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# The competitiveness of the Bulgarian economy

## The performance ratings

It is widely accepted by experts and analysts that there is a positive relationship between progress in market reform and the level of competitiveness of central and eastern European (CEE) countries in transition. In general, this vision is also confirmed by the results of comprehensive research efforts, which can be found in some recent publications: *The Global Competitiveness Report 2000* of the World Economic Forum[1]; *Benchmarking Competitiveness in Transition Economies*[2] of the Harvard Institute for International Development; and *Transition Report 2000*[3] of the European Bank for Reconstruction and Development.

The first two are focused on competitiveness, but the third sheds light on the progress of market reforms in transition countries. In Table 1 are included only those transition countries for which there is data available in the three publications.

### Table 1 – Reform efforts and competitiveness ranking

| | Hungary | Czech Republic | Poland | Slovakia | Bulgaria |
|---|---|---|---|---|---|
| Rank according to *Benchmarking Competitiveness in Transition Economies* | 1 | 2 | 3 | 8 | 10 |
| Rank according to the *Global Competitiveness Report 2000* | 26 (+12) | 32 (+7) | 35 (+8) | 39 (+6) | 58 ( - 2) |
| Transition Report<br>a) Aggregate transition indicator | 3.75 | 3.52 | 3.47 | 3.32 | 3.0 |
| b) overtaking index (%) | 100 | 93.87 | 92.5 | 88.53 | 80.0 |

*Benchmarking Competitiveness in Transition Economies* includes the results of a comparison of the competitiveness of 25 transition countries, while the *Global Competitiveness Report 2000* analyses and compares the 'current competitiveness index' of 59 of them. For instance, Hungary was ranked 38 in the *Global Competitiveness Report 1999* and 26 in the *2000* edition.

1 World Economic Forum: *The Global Competitiveness Report 2000*, New York: Oxford University Press.
2 Jeffrey Sachs, Clifford Zinnes and Yair Eilat (2000): *Benchmarking Competitiveness in Transition Economies*, Harvard Institute for International Development, January.
3 European Bank for Reconstruction and Development (2000): *Transition Report 2000.*

The EBRD's *Transition Report 2000*[4] presents the values of eight component transition indicators (see Table 4 for full details). These range from 1 to 4+, where 4+ indicates that the country's characteristics are comparable to those prevailing on average in advanced economies, and 1 represents the sort of conditions prior to reform in centrally planned economies with dominant state ownership of the means of production. The transition indicators are then linearised by assigning a value of $+^1/_3$ to a positive sign and $-^1/_3$ to a negative one. The aggregate transition indicator for each country is derived as a simple average of the eight component indicators. The 'overtaking index' is calculated by dividing the aggregate indicator of each country by the aggregate indicator of the country in the leading position (Hungary) and then multiplying by 100.

A two-faceted general conclusion may be drawn from the data in the Table:

a. independently of differences in the methodology used in the two publications on competitiveness, they have produced the same results in terms of countries' ranks – Hungary occupies the leading position and Bulgaria is at the bottom. (Of course, one should bear in mind that the empirical data reflect the situation as at 1999. Therefore, the positive trend in the development of the Bulgarian economy in 2000 has not been taken into consideration)

b. the ranking of countries according to the aggregate indicator of *Transition Report 2000*, which shows their progress in market reform, coincides with the ranking in terms of competitiveness.

However, it seems embarrassing, as well as difficult to perceive, how the 20 percentage points measuring the rate of protraction of the Bulgarian market reform process are translated into such a tremendous difference in the performance of Hungary and Bulgaria in terms of competitiveness.

On the other hand, the velocity of the reform in Slovakia and Bulgaria is almost equal but the resulting changes in competitiveness are in the opposite direction – Slovakia has overtaken six countries in one year (a good result) while Bulgaria's rank has fallen to the bottom. These signify that the relationship between the velocity of market reform and the resulting gains in competitiveness is not as simple as it looks at first glance. The over-simplification of the problem proceeds mainly from the widely-accepted practice in analysing the transition process and assessing its results in the context of a 'market-fundamentalist' approach,[5] instead of basing it on the theory of competitiveness.[6]

4 ibid., p. 14.

5 For more details about „the 'market-fundamentalist' approach see: IMF: *World Economic Outlook, October 2000,* p. 92.

6 In the context of our discussion, Porter raises the following argument: 'In developing countries, if reform efforts continue to concentrate largely on IMF-style macroeconomic adjustments, we will face a continued succession of disappointments. Only by tackling the specific constraints to productivity and the numerous policies that blunt local rivalry will developing countries achieve sustainable improvements in prosperity. With global capital markets, countries can engineer spurts of growth through macroeconomic and financial reforms that bring floods of capital and that cause the illusion of progress as construction cranes dot the skyline.' (World Economic Forum: *The Global Competitiveness Report 2000*, p. 41.)