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Migration from New EU Member States in Central and Eastern  
Europe and Their Depopulation: Case of Bulgaria

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### 表紙写真(© Kunihiko AOKI)

左:1981年3月8日ザグレブ(クロアチア): キオスクで Play Boy も売っていた

右:1981年3月2日マリボール(スロベニア): トヨタのコロナがタクシー

本号執筆者は旧ユーゴスラビアを中心とする東欧専門家なので、以下の写真を選択した。

1981年2月下旬に東ベルリンからユーゴスラビア航空でザグレブへ行き、そこからバスでマリボールへ行った。迎えてくれるはずの教授がバス停にまだいなかった。出発地(クロアチア)と時刻表が異なったようだ。経済大学で2週間ほどユーゴ自主管理の資料集めや聞き取りをした(その結果が「ユーゴスラビア経済機構ノート」)。ドイツ語がよく通じるので町歩きも容易だった。

町のキオスクで雑誌 Play Boy が売られていて、東ベルリンとの違いに驚き、写真に撮った。写真左のウインドウの中ほど左端にそれが見える。東ベルリンでも、CSCE ヘルシンキ宣言の効果で、西独の新聞を販売しなければならなくなったが、西側ツーリスト向けホテル内で一部の新聞を外貨限定で販売していた。キオスクにはあり得なかった。私が西ベルリンから紙誌を持ち込もうとすると、チェックポイント・チャーリーの係官は丁重に「あなただけの使用に」と言ったが、読み終わると、東ベルリンの地下鉄駅などに置き忘れた。

東独も金持ち向けにボルボを輸入したり、ホーネッカーの訪日絡みでマツダを輸入販売したが、タクシーにトヨタはあり得なかったので、撮影した。東独の壁が開放すると、一気に日本製タクシーも増えた。

帰路のユーゴスラビア航空が客室と操縦室の間のドアを開いたまま飛行したことにも驚いた。ハイジャック警戒心なし。

# **Migration from New EU Member States in Central and Eastern Europe and Their Depopulation: Case of Bulgaria**

**Yoji Koyama<sup>1</sup>**

## **Abstract**

Emigration from new EU member states in Central and Eastern Europe, especially the Baltic States and the Balkans has been intense since their admission to the EU. Taking up the case of Bulgaria, this paper surveys the actual situation. Beginning in the 21st century a huge amount of foreign direct investment has flowed into the country. However, it flowed mostly into real estate, finance, services, etc. and did not contribute to creation of employment opportunities so much. Massive outflow of young and educated people from the country is a serious problem. As the EU has given new EU member states only ‘free mobility’ in respect of labor but failed to create employment opportunity sufficiently in poorer member states its policy has collapsed. This paper argues that more active industrial policy by the Bulgarian government is required.

**Keywords:** emigration, depopulation, Bulgaria, the EU

**JEL Classification:** J61, P51, O52

## **1. Introduction**

The number of refugees, heading for Europe from Middle East, Africa and Asia, increased sharply around 2015. The refugee problem has been shaking the European Union (EU). Reactions by new EU member states (NMS) have not been uniform, but many of them responded to the refugee problem rather coldly and reacted against the EU’s policy of the quota for each member states to accept refugees. At the same time, however, there have been other problems such as people’s massive outflow from NMS to EU core member states as well as depopulation in NMS. Although these problems occurred especially after the system change in Central and Eastern Europe in 1989 and have been persisting now, they have not been paid enough attention. In my opinion, one of the reasons for their cold reactions to the refugee problem seems to consist in the fact that they could not create employment opportunities sufficiently for their own people, causing persistent migration and depopulation.

People in the EU member states enjoy free mobility of labor. The EU membership has intensified mobility of people in NMS. However, migration from the periphery to the EU’s core such as Germany has been overwhelmingly frequent and migration from the opposite direction has been less

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frequent. A population decrease in the Baltic States and the Balkans has been remarkable. The pace of people's outflow has been so rapid in some NMSs that depopulation has been progressing there at a very high pace which even some Japanese prefectures, suffering from depopulation, have not experienced.

At first this paper will give an overview of actual situation in the international migration in Central and Eastern Europe. Then taking up the case of Bulgaria, this paper surveys the actual situation more in detail. After having grasped the extent of a natural decrease in population and net emigration, I will consider causes of the massive emigration. For this purpose, problems such as how transition to a market economy was implemented, de-industrialization, situation in agriculture and rural areas, and the situation after its accession to the EU are examined. Then I will briefly discuss emigrants' motivations and the government's countermeasures and will reach some conclusions.

## 2. International Migration in Central and Eastern Europe

Table 1 shows changes in population in New EU member states during the period between 2004, when these countries were admitted to the European Union, and 2008 when the Lehman shock occurred as well as the period between 2008 and 2014. The table is calculated based on official data, but we should take into mind that the official data is not always accurate. However, it allows us to have certain images.

**Table 1 Changes in Population in New EU Member States 1,000**

New EU Member States	Population in 2004	Population in 2008	Population in 2014	Changes in population in 2004 – 2008	Changes in population in 2008 – 2014
Estonia	1,349.3	1,340.7	1,310	-0.6%	-2.3%
Latvia	2,312.8	2,266.1	2,005	-2.0%	-11.5%
Lithuania	3,435.6	3,358.1	2,928	-2.3%	-12.8%
Poland	38,182.2	38,125.8	38,530	-0.1%	1.1%
Hungary	10,107.1	10,038.2	9,850	-0.7%	-1.9%
Czech Republic	10,216.0	10,490.0	10,534	2.7%	0.4%
Slovakia	5,382.4	5,406.6	5,420	1.3%	0.2%
Slovenia	1,997.0	2,151.4	2,061	1.2%	2.0%
Romania	21,685.0	21,514.0	19,930	-0.8%	-7.4%
Bulgaria	7,781.2	7,623.4	7,260	-2.0%	-4.8%
Croatia	4,439.0	4,435.0	4,250	-0.1%	-4.2%

Source: Calculated by the author based on data from *Current Analyses and Forecasts*, wiiw, various issues.

This table tells us that only three countries, i.e. the Czech Republic, Slovakia and Slovenia recorded an increase in population in both period 2004-2008 and period 2008-2014. In the case of Poland, its population decreased slightly in the first period but increased in the next period<sup>2</sup>. In the case of the remaining countries, their population decreased in both periods.

**Table 2 Net Migration from New EU Member States in CEE to EU-15 during the Period 2000-2015**

Destination	Countries of Origin										Total
	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI	
Denmark	4,945	938	1,041	2,329	3,775	7,967	21,472	12,006	1,227	274	55,974
Finland	1,850	-38	44,710	1,933	1,705	1,075	3,944	2,383	200	49	57,811
Ireland	893	2,681	1,215	6,062	13,105	22,588	86,857	14,399	6,554	123	154,477
Sweden	5,005	1,417	246	2,431	4,369	9,941	43,419	13,447	1,276	531	82,082
UK	46,697	29,786	7,418	43,445	61,914	112,647	644,354	82,023	62,684	1,106	1,092,074
Greece	34,395	738	69	156	296	378	334	19,882	456	23	56,691
Italy	47,291	4,728	990	7,837	2,564	5,066	75,481	902,877	7,723	-129	1,054,428
Portugal	4,390	111	-99	171	130	222	588	19,251	61	24	24,849
Spain	126,438	6,903	1,751	8,012	3,797	16,620	55,253	649,643	6,891	1,095	876,403
Austria	4,845	16,939	114	26,371	247	280	23,461	38,899	8,368	1,922	121,446
Belgium	25,401	3,142	950	5,090	1,746	2,327	61,806	54,801	5,873	882	162,018
France	7,614	-3,181	28	-3,717	1,396	970	-32,145	55,800	1,503	-978	27,290
Germany	72,117	442,672	2,571	83,854	17,722	33,320	1,259,480	267,267	18,409	13,578	2,210,990
Luxembourg	784	826	512	966	483	588	2,585	1,439	647	435	9,265
Netherlands	17,064	-3,980	772	7,650	2,947	4,091	82,246	10,721	478	126	122,115
EU-15	399,693	503,682	62,288	192,590	116,196	218,080	2,329,135	2,144,838	122,350	19,061	6,107,913
Ratio to Population	4.89%	4.90%	4.55%	1.89%	4.90%	6.23%	6.09%	9.56%	2.27%	0.96%	

Source: Mara, Isilda and Michael Landesmann (2016), Free Movement of Persons to the UK and Its Implications for the Mobility of the EU-CEE Countries, *Forecast Report Autumn 2016*, p. 36, wiiw. The ratio to population is calculated by the author.

<sup>2</sup> According to Ryszard Rapacki, Professor at Warsaw School of Economics, in Poland there has been permanent emigration which was not reflected in official statistics. It is estimated that at least 1.5 million Poles settled down abroad and live permanently in another EU country, without officially reporting this decision to Polish authorities. As a result, the actual number of Poles living in Poland may amount to maximum 37 million. An e-mail from Professor Ryszard Rapacki on September 5, 2018.

The decrease in population was remarkable in the Baltic States. Especially the period after the 2008 global financial crisis, i.e. period 2008-2014 the population decreased by 2.3% in Estonia while in Latvia and Lithuania it decreased by 11.5% and 12.8% respectively. After these two countries the decrease in population is remarkable in three Balkan countries Romania, Bulgaria and Croatia recording 7.4%, 4.8% and 4.2% respectively. A decrease in population is determined by two factors: a natural decrease in population and a population outflow. Such a considerable decrease in population makes us guess that there has been a substantial population outflow from these countries during this period because a natural decrease in population is usually not so large.

Table 2 was prepared by Mara and Landesmann at the Vienna Institute for International Economic Studies (wiiw) using various statistics of the UN. Their direct purpose is to consider the possible impact of Brexit on the mobility pattern of EU-CEE citizens headed to the UK. This table is useful also for our study because it includes advanced countries (EU-15) other than the UK as destinations. However, we should be mindful when we look at this table. This table includes only net migration from new EU Member States in Central and Eastern Europe to EU-15. Migration to North America and other regions has been presumably massive, but this is not included in the table. Similarly migration between new EU Member States, for example migration from Romania to Hungary, has not been taken into account. Net migration from New EU Member States to EU-15 for 16 years from 2000 through 2015 amounted to about 6.1 million. The destination for which the largest number of people headed is Germany, and about 2.21 million people (about 36% of the total) left their own countries for this country. The second place is the UK (17.7%), followed by Italy (17.2), Spain (14.3%). In countries following Spain the number of net migration is much smaller. It is very strange that France, a major power in Europe and the most tolerant country toward migration, has accepted smaller number of migration from Central and Eastern Europe. I guess that France instead has presumably accepted migration from Maghreb countries on an overwhelmingly large scale.

Next, in order to grasp relative scales of net migration from new EU Member States, I have calculated the ratio of net migration to population by dividing the total net migration for each country during the period 2000-2015 by the population as of 2000 (the lowest row). We can find that Romania comes first with 9.56%, followed by Lithuania (6.23%), Poland (6.09%), Czech Republic (4.90%) and Latvia (4.90). Bulgaria follows the last two countries with a narrow margin (4.89%). It is noteworthy that in the case of Slovenia the percentage is the lowest (only 0.96%). In spite of the fact that people have migrated massively from Poland and Czech Republic to the EU-15 any serious decrease in population has not occurred in these two countries because they have had massive immigration from foreign countries at the same time<sup>3</sup>.

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<sup>3</sup> Poland had over 40 thousand permanent immigrants every year from 2007 through 2013. The number decreased to 32 thousand in 2014 but increased to 86,100 in 2015. The number of permanent immigrants to

Favorite destinations are somewhat different depending on countries of origin. For Romanians the most favorite destination has been Italy, followed by Spain and the UK. For Lithuanians it has been the UK, followed by Ireland, Germany and Spain, and its neighboring country Sweden has been ranked fifth. For Poles it has been Germany, followed by the UK, and the numbers of migration to other countries have been smaller by a digit. For Czech people it has been Germany, followed by the UK and Austria. For Latvians it has been the UK, followed by Germany and Ireland. For Bulgarians it has been Spain because the climate is mild there and agricultural labor in Spain has not required Bulgarian peasants to get any new skills. The second place has been occupied by Germany, followed by Italy, the UK and a neighboring country Greece.

The above-mentioned facts tell us that countries where emigration has been seriously proceeding are the Baltic States, especially Lithuania and Latvia, and two Balkan countries Romania and Bulgaria. I am planning to study the cases of Romania and Lithuania individually. In this paper I will examine the case of Bulgaria for which I have collected materials to a certain extent.

### **3. Population Dynamics in Bulgaria**

This country is the poorest among New EU Member States. Its GDP per capita as of 2016 is € 6,800 (US \$ about 7,900). Its GDP per capita at purchasing power parity (PPP) is € 14,200 being only 49% of the average of 28 member states of the EU (Euro 29,000) (wiiw, *Forecast Report*, Spring 2017). As for its ethnic structure, about 80% of the total population is Bulgarians with Turks and Roma occupying about 10% respectively. At the end of the socialist period, namely from June through September 1989, about 340 thousand ethnic Turks escaped the country for Turkey<sup>4</sup>, but since the system change till now there has been no migration of people deriving from ethnic conflicts. Bulgaria's population, which was 8.82 million in 1990 immediately after the system change, has drastically decreased by 1.6 million to 7.20 million in 2014 within a quarter century. From its peak 8.96 million recorded in 1985 it has decreased to 7.1 million in 2016, meaning that the

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the Czech Republic was 100,600 in 2007 and 76, 200 in 2008. After the 2008 global financial crisis, however, the number decreased to 38,200 in 2009 and it fluctuated between 20,000 and 30,000 from 2010 through 2013. Then the number began to increase in 2014 recording 38.500. It recorded 31,600 in 2015. OECD (2017), p. 17.

<sup>4</sup> From 1984 through 1985 ethnic Turkish minority was forced by the authorities to change their names into Bulgarian-style. When they made protests in spring 1989 the authorities suppressed them and opened border with Turkey, encouraging their exodus. About 130 thousand of about 340 thousand ethnic minorities who left for Turkey returned to Bulgaria later. Turkish exodus in 1989 was ethnic purge: Bulgarian archives, *Daily News* (Sofia-Agence France-Presse), September 11, 2012. [online]. [cit.2017-08-30]. Available at <http://www.hurriyetdailynews.com/turkish-exodus-in-1989-was-ethnic-purge-bulgarian-archives-29853>.

population of nearly 9 million came to nearly 7 million within only about 30 years. It was a tremendous decrease in population (Table 3).

**Table 3 Population Dynamics in Bulgaria**

Year	Population	Fertility rate	Birth rate (per 1,000)	Death rate (per 1,000)	Natural increase or decrease (per 1,000)	Migration (net)
1945	6,936,000	3.09	24.1	14.9	9.1	n.a.
1950	7,251,000	2,94	25.2	10.2	15	n.a.
1955	7,541,295	2.53	20.1	9.1	11.1	-23,600
1960	7,866,472	2.3	17.8	8.1	9.7	-8,700
1965	8,206,564	2.53	15.3	8.2	7.2	-23,600
1970	8,494,765	2.13	16.3	9.1	7.3	-1,300
1975	8,727,332	2.16	16.6	10.3	6.3	-8,700
1980	8,865,235	2.19	14.5	11.1	3.4	-19,000
1985	8,960,387	2.01	13.3	12	1.3	-4,500
1990	8,821,111	1.95	12.1	12.5	-0.4	-36,800
1995	8,358,116	1.55	8.6	13.6	-5	-71,300
2000	8,000,510	1.2	9	14.1	-5.1	-21,300
2005	7,682,614	1.24	9.2	14.6	-5.4	-16,600
2010	7,407,297	1.5	10	14.6	-4.6	-16,600
2011	7,348,000	n.a.	n.a.	n.a.	n.a.	n.a.
2012	7,305,000	n.a.	n.a.	n.a.	n.a.	n.a.
2013	7,246,000	n.a.	n.a.	n.a.	n.a.	n.a.
2014	7,202,000	n.a.	n.a.	n.a.	n.a.	n.a.
2015	7,149,787	1.52	9.2	15.3	-6.1	-10,000
2016	7,097,796	1.54	n.a.	n.a.	n.a.	n.a.

Note: As for 1945, 1950, 2011, 2012, 2013 and 2014, approximate figures.

Source: Prepared by the author by combining two tables from the Bulgarian Statistical Institute.

Source: <http://worldometers.infor/world-population/bulgaria-population/>;

[https://en.wikipedia.org/wiki/Demographics\\_of\\_Bulgaria](https://en.wikipedia.org/wiki/Demographics_of_Bulgaria); Original source: <http://www.nsi.bg>

Two factors can be mentioned for the decrease in population: First, the birth rate began to fall short of the death rate in 1990. Since then the birth rate has consistently been less than the death rate, and a



natural decrease in population has been continuing<sup>5</sup>. Second, the emigration to foreign countries has been exceeding the immigration from foreign countries, and therefore a net outflow of people has been continuing.

**Table 4 Bulgaria's International Migration in 2016 by Age and Nationality of Emigrants and Immigrants**

Age	Immigration					Emigration				
	All	Bul-garian	Others	of which		All	Bul-garian	others	of which	
				EU citizen	Non-EU citizen				EU citizen	Non-EU Citizen
<b>Total</b>	<b>21,241</b>	<b>9,254</b>	<b>11,987</b>	<b>1,310</b>	<b>10,677</b>	<b>30,570</b>	<b>25,795</b>	<b>4,775</b>	<b>752</b>	<b>4,023</b>
0-4	1,201	772	429	8	421	602	530	72	7	65
5-9	779	321	458	15	443	727	622	105	7	98
10-14	585	200	385	7	378	937	859	78	4	74
15-19	989	439	550	49	501	2,095	1,960	135	19	116
20-24	1,450	569	881	76	805	4,701	3,892	809	114	695
25-29	1,807	875	932	68	864	4,653	3,884	769	74	695
30-34	1,984	921	1,063	93	970	3,853	3,354	499	75	424
35-39	1,940	932	1,008	91	917	3,148	2,744	404	79	325
40-44	1,820	735	1,085	119	966	2,620	2,257	363	88	275
45-49	1,597	592	1,005	158	847	1,954	1,635	319	67	252
50-54	1,464	544	920	164	756	1,444	1,143	301	87	214
55-59	1,606	600	1,006	139	867	1,170	911	259	58	201
60-64	1,598	690	908	123	785	905	674	231	28	203
65-69	1,506	769	737	111	826	763	552	211	26	185
70+	915	295	620	89	531	998	778	220	19	201

Source: Republic of Bulgaria National Statistical Institute.

<http://www.nsi.bg/en/content/6685/migration-population-districts-municipalities-and-sex>

Since the system change the fertility rate continued to decrease in the 1990s. It seems that the phenomenon reflected people's intensifying anxiety about their future in the prolonged transformational recession. The fertility rate decreased to 1.20 in 2000, and then it has recovered to more than 1.5 in 2015, supposedly reflecting an improvement of people's lives. In 2016 the number of

<sup>5</sup> Mladenov and Ilieva (2012) say that a natural decrease in rural population began in 1975, a natural decrease in urban population began in 1974 and a natural decrease in total population began in 1990.

people who emigrated from Bulgaria was 30,570 and the number of people who immigrated into Bulgaria (including both Bulgarians and foreigners) was 21,241, therefore net outflow of people was 9,329 (Table 4). In that year the total population has decreased by 51,991 from the previous year. The net outflow of people does not seem to be a significant factor because it is only about 18% of the total decrease in population.

In my interview of September 2017, however, Dimiter Ialnazov, Professor at Kyoto University, says that the number of people's outflow which the Bulgarian Statistical Bureau announced is smaller than the actual outflow. According to him, there are people who have emigrated without procedures of a change of address. Anyway, looking at only Bulgarians, the difference between immigration (including return immigration) and emigration, i.e. the net people's outflow is 16,541 and contributes to a third of the total decrease in population. This is not a negligible number.

From table 2 we can find that net migration from Bulgaria to EU-15 for 16 years during the period 2000-2015 amounted to about 400 thousand, but as mentioned above this table does not take into account people who have migrated to countries other than EU-15. In addition, there are people who have migrated to foreign countries in the earlier period including the communist period. Bakalov and Borisova (2013) estimate that at present expatriate Bulgarians amount to about a million.

According to Mitev and Kovacheva (2014) sociologists who studied Bulgarian youths, in the 1990s, especially after the economic crisis in 1996/97 there was an emigration boom due to sudden impoverishment. In the 21st century there have been post-transition emigration flows. Push factors are the continuation of poverty and low living standards, the job losses due to de-industrialization. In addition, young people's willingness to study abroad is mentioned. Let us see the actual situation of Bulgaria's transition.

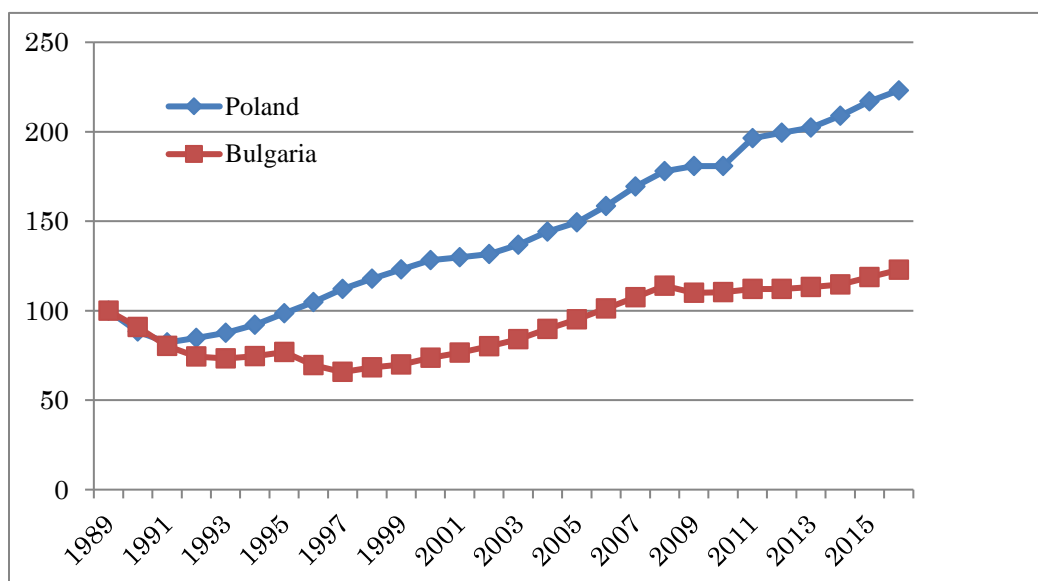
## **4. The Actual Situation of Transition to a Market Economy in Bulgaria**

### **4.1. Comparison with Poland**

Taking up Poland as a benchmark of Central Europe, I will compare Bulgaria with it. In Poland the transformational recession was shortest and shallowest, and the economy picked up in 1992 (see Rapacki, 2001, pp. 108-109). The economy has been continuing to grow steadily without recording negative growth. In the case of Poland, Inward FDI in various area of the economy including manufacturing has led the economic development.

In contrast to Poland, the transformational recession has prolonged in Bulgaria. Although there was feeble economic recovery in the mid-1990s, the country experienced the second transformational recession from 1996 through 1997. After that its economy began to grow, but it suffered a major damage by the 2008-2009 global financial crisis, and its GDP declined by 3.5% in 2009. Its economy has been quite vulnerable to changes in external environment.

**Figure 1 Changes in GDP Growth Rates : Comparison of Poland and Bulgaria**



Source: Prepared by the author based on *Current Analysis and Forecast* (wiw), various issues.

**Table 5 Changes in Relative Development Levels of New EU Member States from Central and Eastern Europe** (GDP per capita at PPP, Average of EU-15 = 100)

	1989	1992	2000	2004	2006	2008	2010	2012	2014	2015
Estonia	54.2	36.1	36.8	48.5	57.1	61.3	57.9	67.7	70.0	70.1
Latvia	52.3	29.4	31.2	41.1	49.1	53.9	47.8	55.5	58.8	59.2
Lithuania	55.3	40.5	33.6	44.2	49.6	56.4	54.5	64.0	69.4	69.9
Poland	38.2	31.6	40.5	43.3	44.6	49.0	56.2	60.1	62.5	63.7
Hungary	55.8	44.3	46.2	54.5	55.4	56.9	59.0	59.8	62.5	63.7
Czech Republic	75.2	61.4	61.9	69.3	71.9	73.5	73.6	75.0	78.1	79.6
Slovakia	59.2	43.4	42.5	49.8	55.4	64.2	66.3	68.3	70.6	72.0
Slovenia	74.0	55.7	68.0	75.3	76.3	80.4	75.3	74.4	76.3	76.4
<b>Bulgaria</b>	<b>46.6</b>	<b>34.2</b>	<b>24.3</b>	<b>30.3</b>	<b>33.9</b>	<b>40.2</b>	<b>40.4</b>	<b>42.1</b>	<b>43.1</b>	<b>43.3</b>
Romania	34.0	25.0	21.9	29.4	33.9	43.6	44.9	49.4	50.6	51.6
Croatia	50.8	n.a.	42.1	49.8	51.8	56.9	53.4	54.9	54.4	54.1

Source: *Poland Competitiveness Report 2016*, p. 38; For 1992, *Poland Competitiveness Report 2006*, p. 20;

The World Economy Research Institute at Warsaw School of Economics publishes *Poland Competitiveness Report* every year. Table 5, which was originally prepared by Zbigniew Matkowski, Ryszard Rapacki and Mariusz Prochniak, indicates to what extent each NMS in Central and Eastern

Europe has converged on the average of EU-15. The original table compares each NMS by per capita GDP at purchasing power parity with Poland being 100, but here I modified the table by recalculating the corresponding figure for each member state with the average of the EU-15 being 100. From here we can find that all NMSs in Central and Eastern Europe have more or less experienced transformational recession but have accomplished economic growth and reduced gaps between them and the average of EU-15. Although most of them (excluding Poland) experienced negative economic growth from 2008 through 2009 (or 2010), they regained economic growth and reduced the gaps. Among them Bulgaria needs special attention. Although the Bulgarian economy exceeds the level of 1989 in absolute term, even in 2015 the country could not reduce the gap between itself and the average of EU-15 that was recorded in 1989, and it is only country which has been rather outdistanced by the average of EU-15.

#### **4.2 A Lack of an Able State**

At the time of system changes in 1989, in contrast to Central European countries and Slovenia, in Bulgaria domestic groups of people have not sufficiently grown up who could lead political changes and shoulder roles of subsequent development of market economy. The system change was done through a kind of court coup d'état, namely reformists within the politburo grasped power in November in 1989. In this way, it was not anti-Establishment elite but a part of the ancient regime that came in the power after the collapse of communism. The old communist party changed its name into 'Bulgarian Socialist Party' in March 1990, but it did not change its character into that of Social Democratic Party as was the case in Central Europe. A conservative group, which insisted on protection and support of state-owned enterprises, regulation of prices and maintenance of social security system inherited from the socialist regime, became the mainstream of the party. Together with some people who suffered under the communist regime as well as anti-establishment groups which appeared at the end of the communist era, another group of the communist party formed the Union of Democratic Forces (UDF). Thus two big parties, i.e. the BSP and the UDF have emerged. Since then keen struggle for power has been repeated between these two parties.

Another product of the system change in this country was "politicization of transition economy". "A part of the nomenklatura of the Communist Party was able to change to new elite. In addition, through suction of assets in state-owned enterprises or transformation of bank loans into bad debts a majority of the nomenklatura has accumulated an enormous amount of wealth and came to have big influence on economic policies in order to protect their interests (Ibid, p. 3). "As a result of increased influence of the politics over the economy, the government has lost its power to manage the economy and became unable to provide people with basic public goods such as protection of property rights and contract rights as well as implementation of laws and regulations. During the period 1989-1997 Bulgaria became a country where criminal organizations provided people with

such public goods instead of the government and informal economy and corruption prevailed” (Ibid, p. 4). Having said in this way, Ialnazov pointed out Bulgaria’s similarity to Russia.

As mentioned above, Bulgaria was struck by a serious economic crisis from 1996 through 1997 (see Figure 1). In 1997 the inflation rate exceeded 1,000% (see Table 6). An Italian economist Caporale (1999) finds serious problem in the points that virtually no foreign investors have participated in the privatization process in the period 1992-1997 and that the largest share of the privatized assets were acquired by working teams, tenants and farmers. Since their main concern was maintaining high levels of employment as well as high salaries and social benefit, it is hardly surprising that productivity in such enterprises was badly affected and they run into debt (Caporale, 1999, p. 219).

In 1995 and 1996 having been pressed to rescue major banks and depositors, the government was obliged to issue a large amount of national bonds. In 1995 there were many people who have lost their deposits due to ‘pyramid schemes’, and an unofficial forecast has spread that some banks might go bankrupt. In December of the same year a financial panic occurred. After the central bank closed two major banks and began the procedure for their bankruptcy in June 1996 the Bulgarian economy was exposed to waves of panic (Ialnazov, 2000, pp. 6-7). In November 1996 the IMF advised the Socialist-led government to adopt the currency board system<sup>6</sup>, and the government of UDF, which won elections in April 1997, adopted the advice. With these drastic measures the hyperinflation has finally ended.

The above-mentioned facts tell us non-existence of ‘an able state’ which two Hungarian researchers Bohle and Greskovitz (2012) mention. According them, after having spent most of the 1990s in economic and political chaos Bulgaria and Romania have become neoliberal market societies. Different from the Baltic States, a low level of political participation in Bulgaria and Romania is not a reflection of political exclusion but rather a reflection of a practical lack of large social groups. In both countries industrialization and political mobilization has not developed before the emergence of communism, and they have failed in construction of a bureaucratic formal state apparatus during the communist era. Instead, “patrimonial and communist” rule relied on extensive

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<sup>6</sup> Currency Board System is a system that IMF recommends countries which are struck by hyperinflation. Under this system the power of central bank is reduced substantially because the stability of currency is given the highest priority. Under this system the money supply must be 100 percent backed by the foreign currency reserves. The Bulgarian National Bank has lost most of the traditional powers of a central bank, and it is now responsible for currency stability and monetary issue, as well as external balance, repayments on external debts, and regulation of banks. BNB is no longer allowed to give loans to government and banks. Therefore, soft financing of loss-making state-owned enterprises through banks and compensation of budget deficit by central bank’s loans became impossible. Among post-socialist countries Estonia and Lithuania have experiences of this system.

networks of patronage and clientelism, and “vertical chains of personal dependence between leaders in the state and party apparatus and their entourage”. This kind of legacy was inherited to a post-communist regime. In this way, there appeared the opportunities for party elites to use “prey on the state”, further undermining state capacity (Bohle and Greskovitz, 2012, pp. 193-194).

This existence or non-existence of this ‘able state’ has something to do with foreign direct investment (FDI). Bohle and Greskovitz (2012) view transnational companies in the way such as ‘patient’ foreign capital vs. ‘impatient’ and ‘hypermobile’ foreign capital. They say that transnational companies which are willing to settle more permanently in a national economy – in particular capital-intensive complex-manufacturing investors<sup>7</sup> -- tend to demand their host countries a variety of resources and services that cannot be efficiently delivered by a weak state. In contrast, transnational companies that came to Bulgaria (along with Romania and Croatia) massively especially from the late 1990s were ‘impatient’ foreign capitals. It is precisely in the traditional and labor-intensive, low-wage/low-skill “sweatshop” industries that the three laggard countries were able to attract more than Slovenia (pp. 206-207).

## **5. Premature De-industrialization**

During the socialist period Bulgaria totally relied on markets of the Soviet Union and COMECON. It has been a predominantly agricultural country with industry being developed to a certain extent. Above all, heavy industry such as steel industry and non-ferrous metallurgy have developed, and their products were mostly exported to the Soviet Union and COMECON countries. After the system change exports to these countries have drastically decreased. Food processing industry and tobacco industry suffered from the loss of markets of the Soviet Union and COMECON. Even if these industries tried to challenge the West European markets they would not be competitive in terms of quality. There seem to be serious problems in agriculture and rural areas in the country. As a result, the process of deindustrialization has proceeded.

It is a quite natural phenomenon that as a normal result of sustained economic growth in highly developed economy the share of service sector is increasing at the same time the share of industry, especially manufacturing is gradually decreasing, i.e. de-industrialization is proceeding. Paskal Zhelev (2017) calls this phenomenon positive deindustrialization. According to him, in contrast, there can be negative de-industrialization where the share of industry decreases as a result of economic failure. If this commenced at lower levels of per capita income than was generally the case for de-industrialization in advanced economies (the turning point is empirically viewed at an

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<sup>7</sup> ‘Complex industry’ is a term coined by Bohle and Greskovitz (2012), and it denotes ‘industry which is intensive in technologically sophisticated physical capital and human skills (p. 89).

average per capita of around US\$ 7,100<sup>8</sup>) we can speak of premature de-industrialization. This applies precisely to the case of Bulgaria.

As mentioned above, Bulgaria has experienced political turmoil and transformational recession in the 1990s. According to Zhelev (2017), international financial institutions (IMF in particular), which extended economic assistance to Bulgaria, imposed on the country the so-called ‘Washington Consensus’, i.e. hands-off approach to industrial development. Since 1995 when Bulgaria applied for EU membership, especially the end of the 1990s the relation with the EU has deepened. The EU strongly recommended Bulgaria horizontal or non-selective policies aimed at improving the business climate for all firms. Bulgarian governments following a neo-liberal approach did not embark on a structural policy prior or after the EU accession<sup>9</sup>. They regarded the EU membership as panacea to the specific problems of the Bulgarian economy. Zhelev says that this passive type of industrial policy did not contribute to improving industrial competitiveness and reversing the process of de-industrialization that was triggered in the early years of transition, and mentions several indicators: First, the share of manufacturing value added (MVA) in Bulgaria’s gross domestic product (GDP) decreased from 16.3% in 2007 to 15.5% in 2016. In Romania and Hungary, which Zhelev uses for comparison, MVA increased during the same period from 22.1% to 23.3% and from 22.2% to 23.9% respectively. Second, as for the share of manufacturing employment in total employment, in both Romania and Hungary the share decreased in 2010 after the global financial crisis but it showed the tendency to increase in 2013 and 2016 while in Bulgaria it decreased consistently from 23.5% in 2007 to 19.5% in 2016. Third, as for the share of manufacturing exports in total merchandise exports, in Bulgaria it increased slightly from 55.5% in 2007 to 57.2% in 2015 while the share is much higher in 2016 in Romania and Hungary recording 77.8% and 86.1% respectively.

Zhelev calls into question a low degree of processing of Bulgaria’s exports and more sluggish evolution towards higher-technology activities and products than its competitors. In 2015, a mere 30% of MVA in Bulgaria consisted of medium-and high-tech subsectors while corresponding shares in Romania and Hungary were higher by almost 8 and 29 percentage points respectively. Therefore, Zhelev argues that it is necessary for Bulgaria to step up a proactive, well designed and consistent national industrial policy. Next, let us examine agriculture and rural areas which have been in hard situations

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<sup>8</sup> Paskal’s argument is based on an empirical research by Buera and Kaboski (2008). Having analyzed reliable extended time series of current price value-added share data for 30 countries, covering six continents and different levels of current development, they find the threshold at an average per capita income of US\$ 7,100 (pp. 8-10).

<sup>9</sup> We can perceive the government’s neoliberal-oriented approach from the fact that it introduced 10% flat tax in October 2008. Petkov (2013).

## **6. Situation in Agriculture and Rural Areas**

In the early 1990s the government aimed at creation of market-based agriculture in line with neoliberalism. Privatization was implemented, but the implementation proved more difficult in Bulgaria than other countries in Central and Eastern Europe. Existing Kolkhoz (Soviet collective farm)-type agricultural cooperatives and Sovkhoz (Soviet state agricultural farm)-type agricultural enterprises were dismantled. Most of their equipment was sold. Farmland reform was implemented basically based on the principle of restitution. As a result, descendants of former owners of the farmlands have received the most of lands, but many of them had no experience of agriculture. In Ialnazov's opinion, the restitution of farmland met justice but it was not economically reasonable solution. According to Slavova (2012), as a result of the farmland reform, the ownership structure has been polarized as follows:

- Business-oriented farming – commercially-oriented farms
- Farming for survival – subsistence farms

About 75% of agricultural holdings account for less than 7% of the utilized agricultural areas. They cultivate plots of no more than one hectare. They are doing agricultural production mainly for home consumption. Agricultural productivity is low. The fragmentation of land ownership is a significant barrier to long-term investments in agriculture, and efficient use of agricultural machinery (World Bank, 2010). The agricultural production continued to decline year after year, and in 1996 it decreased to about 62% of the level of 1990. World Bank (2000) mentions the following causes for agricultural production: i) As subsidies were reduced considerably and the purchasing power of farmers fell, the quantity of fertilizer use declined precipitously; ii) Mechanization also declined, although not so dramatically; iii) As a result of privatization, many live-stocks were put in the hands of farmers, but they were ill-equipped to care for animals, resulting in a rapid decrease in animals; iv) Sharp drops in demand for agricultural products due to a decline in inhabitants' purchasing power and disintegration of the traditional trading relations within COMECON as well as the Russian financial crisis in 1998.

As we have seen, the government did not have sensible policies for agriculture and rural areas at that time. In 1997 when Bulgaria was not a member state yet the EU began organizational aid to the country through 'the Special Accession Program for Agriculture and Rural Development (SAPARD). In spite of aid by the EU through SAPARD and Common Agricultural Policy (CAP), however, the Bulgarian agriculture has not begun powerful development yet. During the socialist period Bulgaria served as a food base for the whole COMECON countries (see Csaki, et al, 2000). The trade balance in the area of agriculture had been in surplus for a long time, but there was a downward trend in the amount of its surplus. Now Bulgaria is a net food-importing country. I cannot confirm this point by Bulgaria's statistics on foreign trade, but Vanya Ivanova, says as follows: Today, much of the fruits



and vegetables on the Bulgarian market are imported from countries such as Greece, Turkey and even Poland. Much of the agricultural land remains uncultivated and fewer people are engaged in agriculture at the expense of the flood of people from the countryside to cities in search of livelihood<sup>10</sup>.

Outflow of people, especially young people has been intense. A natural decrease in population in rural areas has begun as early as in the mid-1970s. In 1975, 42% of Bulgarians lived in rural areas. At present about two million, i.e. 27.5% of total population live in rural areas, of which about a million are pensioners. Among them there are people who returned to villages “as pensioners, after spending much of their life in town” (Martino, 2015). The amount of their pension is very small. Bakalov and Borisova (2013) tell us about the situation in Paramun, a typical village in a mountainous region, which is 70 km west of Sofia. “The elderly inhabitants often keep a few chickens and small vegetable patches while struggling to survive on miserable state pension of € 100 a month” (Bakalov and Borisova, 2013). Paramun used to have 400 inhabitants. Most of them raised sheep and goats and worked on the cooperative farm, which was closed after the fall of communism in 1989. An old man (76 years old) says, “there were around 500 sheep here. Now there aren’t any. We had goats too but there are no longer any young people to act as shepherds. Our grandchildren are already foreigners”. This is a story about Paramun, but, I think, this is not limited to Paramun. There is little work in villages. Such a situation forces young people to move to neighboring town, big cities and Sofia or abroad in search of employment. Bakalov and Borisova (2013) use an expression “slow death of rural Bulgaria”. According to them, in the past two years, more than 100 villages have ceased to exist because nobody lives there or because villages with only a handful of residents have absorbed by larger villages. There are at least 500 empty or ‘ghost’ villages in this country. As of August 2013, the unemployment rate in this country is 13%, but youth unemployment rate is much higher at 28.4%. They say that real figure of the unemployment is thought to be closer to 25 to 30% because so many Bulgarians work on a seasonal basis in countries like Greece, Spain and Italy. Those who work on a seasonal basis (there is no job other than this) are not taken into account. Based on data the Bulgarian trade union center, Bakalov and Borisova (2013) say that between 20 thousand and 25 thousand young Bulgarians leave the country in search of work every year.

## **7. The EU Accession and Bulgaria**

The accession to the EU has brought bright prospect and opportunities to the country, consequently increasing funds from the EU and FDI. Christova-Balkanska (2016), says that while funds from the EU and FDI play important an important role in the convergence of the

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<sup>10</sup> Dr.Vanya Ivanova’s reply in an e-mail to my inquiry. October 7, 2016.

Bulgarian economy to the EU standards, both have problems. First, Structural Funds and Cohesion Funds of the EU are expected to contribute to the economic development of less developed member countries. According to her, in practice funds from the EU were not sufficiently effective because Bulgaria has consumed only 19% of the allocated sums in the years 2007-2013. Administrative and judicial officials have been so weak that there have been problems in the process of planning projects and funding, and therefore the absorption rate of the EU funds was quite low (For absorption rate, see Sediva Neckarova and Sedivy, 2016). Professor Ialnazov (Kyoto University) points out a problem that funds allocated from the EU have often been pilfered by politicians, bureaucrats and enterprises in the process.

**Table 6 Main Economic Indicators of Bulgaria**

	1995	1997	2001	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP growth	2.9	-7	4	5.8	-5.5	0.7	2.0	0.5	1.1	1.4	0.8
Private consumption	n.a.	n.a.	n.a.	3.7	-6.4	0.5	1.8	3.9	-2.3	1.4	0.8
Public consumption	n.a.	n.a.	n.a.	-1.1	-7.6	2.0	1.8	-1.0	2.8	2.1	0.2
Gross fixed capital form.	16.1	-23.9	19.9	22.0	-17.4	-18.3	-4.6	2.0	-0.1	2.3	-2.3
Export of goods & services	34.7	1.0	16.5	2.5	-11.7	17.2	11.5	0.8	9.2	0.3	3.0
Import of goods & services	35.2	-2.8	28.4	4.9	-21.5	4.1	8.5	4.5	4.9	1.2	2.0
Inflation rate	62.1	1082.3	7.4	12.0	2.5	2.9	3.4	2.4	0.4	-1.6	-0.5
Unemployment rate	11.1	13.7	17.3	5.6	6.8	10.3	11.3	12.3	13.0	11.7	10.9
Budget balance	-5.6	-3.1	-0.9	1.7	-4.3	-3.1	-2.0	-0.3	-0.4	-5.5	-1.7
Trade balance	-3.0	0.1	-15.9	-20.6	-8.2	-2.5	-5.4	-2.7	-5.9	-6.9	1.0
Current account balance	-0.2	4.2	-6.1	-23.1	-8.9	-1.5	0.1	-1.1	3.0	0.1	0.4

Source: For the period 2008-2015, Christova-Balkanska (2016), p. 41; For the period 1995-1997 and the budget balance (the whole period), wiiw, Current Analysis and Forecasts, various issues. Except budget balance, trade balance and current account (which are % of GDP), annual change in %.

Second, it is the period 2005-2007 that a large amount of FDI has flowed into the country. A significant share of FDI went into non-manufacturing industries (especially, construction, real estate and tourism), which caused consumption-led economic development and an economic bubble. Current account deficit in 2008 recorded 23.1% of GDP (see Table 6). I would like to add that although not included in this table current account deficit in 2007 was approximately 25% of GDP. And then came the Lehman shock in September 2008. As the demand from main trading partners decreased sharply the production activities in Bulgaria contracted correspondingly. Also FDI inflow declined sharply. As import shrank more than export in 2009, trade deficit and current account deficit have fell to 8.2% and 8.9% of GDP respectively. This trend continued for a while after that.

More than half of the FDI stocks in the non-financial sector were concentrated in big cities such as Varna, Burgas and Plovdiv and the capital city Sofia. These big cities attracted 80% of the total stock of FDI. A problem is that countryside, especially in the northwestern part of the country has received almost no foreign capital. Christova-Balkanska says, “because FDI are concentrated in big cities, with an available labor force, in smaller towns and villages FDI cannot contribute to overcoming unemployment and to keeping the inhabitants in the places of birth, which undoubtedly affects and increases the intention for emigration of the young generation” (Christova-Balkanska, 2016, p. 59).

The Bulgarian government is the most faithful to the EU’s lines among EU member states. According to Smilov (2012), there is a widespread opinion that Bulgarians trust the EU because they do not trust their own elected political elites. He says that it is true. Although Bulgaria was admitted to the EU, it has suffered humiliation of ‘probationary periods’ and has been in an incomplete status for several years. It seems that such an experience makes Bulgarians to have this attitude now. “The strategy of the governing center-right GERB<sup>11</sup> party is to demonstrate that the Bulgarian economy is robust enough to survive all forms of austerity required by the EU, and could even outdo the others in terms of financial discipline”.

As for nominal convergence criteria, as far as declining percentage of price rise (rather deflation in recent years), decreasing budget deficit, declining public debt, etc. are concerned, the country fulfils the criteria. After the global financial crisis, however, the economic growth has been slow. It will be a long way to Bulgaria’s substantial income convergence. Albeit declining in recent years, the unemployment rate is still recording a double-digit (see Table 6), working as a push factor for people’s emigration to foreign countries. Austerity which has been strongly recommended by the European Commission and the IMF is restricting the country’s economic development.

## **8. Motivations for Emigration and the Government’s Countermeasures**

According to a sociological survey, the majority of those who would like to move to another city/village in Bulgaria intend to emigrate, or have at least considered emigrating but have not taken a final decision. Young people from the North-West region (the poorest region) are less inclined to emigrate than those from the South-West region (the richest region). The former are the most willing to relocate to another city/village in the country while the latter are the least willing to do so. Domestic migration (go to another city/village in Bulgaria) and external migration (go to another country) are mutually replaceable and the borderline between both is variable<sup>12</sup>. The final decision

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<sup>11</sup> GERB (Citizens Aiming at Development of Bulgaria in Europe) is a center-right party led by Prime Minister Borisov.

<sup>12</sup> For potential migration, see Mintchev, et al (2004?).

where to go depends on factors of different importance to different individuals (Mitev and Kovacheva, 2014, p. 166).

As for a recent trend in international migration, a study by a Bulgarian economist Vanya Evtimova-Ivanova (2012) is useful<sup>13</sup>. Based on her study, let us look at the recent trend. According to her survey in 2012, to an inquiry “what was the aim of going abroad”, 81% of the respondents mentioned Education, followed by Family reunification (8%) and Work (8%), Further qualification, fellowship (4%). It seems that there is a great problem in the educational system in Bulgaria. According to Dimiter Ialnazov, in spite of the fact that the economic structure has been transformed from an economy with priority given to heavy industry in the socialist period into a service-oriented economy, the content of education does not meet requirements of the economy<sup>14</sup>. Therefore, many young people went to universities in advanced countries in Europe and North America. Many parents have been encouraging their children to go abroad for education. According to a survey done at the end of September 2012, 14% of Bulgarians have the intention to leave the country forever. This is 3% percentage point more compared to a similar survey done in November 2009 (Evtimova-Ivanova, 2012).

To an inquiry about “Reasons to work abroad” (multiple answers are permissible), “Better professional realization” comes first with 52%, followed by “Better payment” (42%), “Don’t want to live in just one country” (31%), “Like risk and challenges” (29%), etc. In EU core countries workers

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<sup>13</sup> In 2008 the German Marshall Fund of the United States and the Robert Bosch Stiftung established Transatlantic Forum on Migration and Integration (TFMI), a multidisciplinary young leaders’ network in the field of immigration and integration and supported young researchers’ researches and their international exchange. Dr. Evtimova-Ivanova’s paper is a result of this research.

<sup>14</sup> Let me supplement this point by the results of a questionnaire survey conducted by Bulgarian sociologists in 2014 (Mitev and Kovacheva, 2014). In Bulgaria the majority (52%) of young people prefer to study in a public educational institution in their home country. When we add the share of those who prefer to study in a Bulgarian private educational institution (9%), we get a total of 61%. This situation is quite different from Albania and Kosovo, where the same majority (61%) prefers to study abroad, be it in public or private educational institution. However, it is noteworthy that in Bulgaria nearly 40% of young people prefer to study at foreign educational institutions. This survey examines the level of satisfaction with the quality of education too. 44% of the respondents satisfy with quality of education, of which most of them are “the mediocre” with a grade point average between 4 (Good) and 5 (Very Good). People with a grade point 6 (Excellent) are not satisfied so much with the quality of education. The top achievers and wealthy Bulgarian youth prefer to study abroad (pp. 116-119). This survey also reveals results of survey according to differences in an ethnic aspect. At schools/universities ethnic Turks study most eagerly and there are many who go to school reluctantly among Roma (p. 111).

with the same kind of job can get wages several times higher than in Bulgaria. Such higher wages in advanced EU member states act as a pull factor.

It is noteworthy that the share of young women with tertiary education attainment significantly exceeds that of young men – 37.6% for women and just 21.8% for men (Mitev and Kovacheva, 2014, p. 10). Based on a report by the government, Ivanova says that among Bulgarians who went abroad women are 10% more than men with almost half them being aged 20-39 years and that about 80% of those who went abroad have secondary or higher education. It seems that women's higher educational attainment and fewer opportunities for suitable jobs has been a determinant of migration.

There have been a substantial number of Bulgarians who have returned home. According to a survey conducted by Dr. Evtimova-Ivanova for Bulgarian residents abroad in 2010, Bulgarians who have stayed abroad for 5 years or more occupy 58% of total respondents, 4 years 17%, 3 years 12%, 2 years 10% and one year 4%. 3,518 Bulgarians changed their permanent address from abroad to Bulgaria in 2010. The number of men prevailed (54%). Among reasons for return migration, the most important is the impact of the global economic crisis on Europe and Bulgaria as well as the subsequent sluggish economic development in Bulgaria. Highly skilled migrants, who are often young and single migrants, may more easily stay abroad because of their good language skills and ability to quickly find another job. To the inquiry about reasons for return migration (multiple answers are permissible) “Graduated” comes first with 54%, followed by “Did not want to live abroad forever” (46%), “Contribute to a sector in Bulgaria” (40%), “Nostalgia (family and friends)” (31%), “Did not plan to stay longer abroad” (23%), “Interesting job offer in Bulgaria” (21%), “Start my own business” (17%), etc.

The government of Bulgaria has not overlooked people's outflow and depopulation. Two strategical documents were adopted. National Strategy of the Republic of Bulgaria for Migration and Integration (2008-2015) was adopted in 2008. Then, National Strategy in the Field of Migration, Asylum and Integration (2011-2020) was adopted in early 2011. The core of both documents is to call Bulgarian residents abroad back to their home country and strengthen the relation with Bulgarian residents abroad (diaspora). The most desirable from the standpoint of the government is that Bulgarian residents abroad will return home, or while staying abroad, making use of their own money, knowledge and network for development of the country. For this purpose, the State Agency for the Bulgarians Abroad (SABA) was established. SABA has created a separate database to collect information about the Bulgarian students abroad. The Ministry of labor and Social Policy (MLPS) held a job fair in Spain for workers who had intentions to return home. Taking into account the fact that the number of emigrants still exceeds the number of return migration, it seems that the government's policies have not brought sufficient results yet.

## **9. Conclusion**

Let us summarize our discussions. First, before people promoting a market economy grew sufficiently in the socialist period, the system change has occurred in Bulgaria, leading to transition to a market economy. Non-existence of ‘an able state’ has given an unfavorable influence on its transition to a market economy and the subsequent economic development. Due to the governments’ erroneous policies after the system change, ‘premature de-industrialization’ has proceeded. Now the country is required to challenge reindustrialization. Problems of people’s outflow and depopulation should be considered in this context.

Second, Bulgaria’s transition has had serious problem resulting from deindustrialization and devastated agriculture. Farmland reform, in particular, after the system change gave the agriculture severe blow. The restitution of farmland to former owners of the farmlands or their descendants was not economically reasonable solution. There emerged the polarization in which along with a small number of large-scale agricultural farms numerous small-scale agricultural farms exist. The government’s impractical policies for agriculture caused a decline in agriculture and distress in rural areas. Many young men flowed out of rural areas to cities and further to foreign countries in quest of jobs. Careful policies to develop rural area will be required.

Third, young people who have educated in cities also could not find enough employment opportunities in the country. Young and educated people, who should shoulder the future development of the country, have emigrated massively, posing a serious question. The government of Bulgaria has so far been too faithful to neoliberal course. It will be necessary for the government to adopt active industrial policies in order to create employment opportunities.

Fourth, as the EU has given citizen of NMSs only ‘free mobility of labor’ but failed to create employment opportunities, the EU’s regional policy has proved unsuccessful. In the future it will be necessary for the EU to make step toward fiscal federalism and have an ample budget at the EU level with its own source of revenue enough to support less developed member states. However, in the current situation in which some member states make complaints against the EU budget of only 1% of GDP there is no way other than expecting private funds in richer member states to flow into less developed member states. Indeed, inward FDI is important for less developed member states, but it is insufficient for these member states to rely on inward FDI. It will be necessary to have a mechanism which will induce private funds to manufacturing in less developed member states under the EU’s guarantee. In that sense, ‘European Fund for Strategic Investment’ (EFSD; the so-called Juncker Plan) needs to be developed.

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