

# **ENCOURAGING THE INVESTMENT ACTIVITY IN HIGH VALUE ADDED ECONOMIC SECTORS AND ACTIVITIES IN CONDITIONS OF DEMOGRAPHIC RESTRICTIONS OF THE LABOUR FORCE IN BULGARIA**

**Iskra BELEVA**

*Economic Research Institute - BAS*

BULGARIA, Sofia, 3 Aksakov Str.

[i.beleva@iki.bas.bg](mailto:i.beleva@iki.bas.bg)

**Abstract:** *The decrease in the labor force as a result of the on-going demographic processes of decrease in the natural growth rate of the population and the sustainable emigration raises a series of questions about the possibilities to achieve better balancing of the demand and supply for labor through restructuring of employment. The goal of the study is to conduct an immediate situational analysis of the opinions of the main “players” in the investment process in order to examine, analyze and assess the investment environment and the stimuli for creating more jobs in sectors and activities with higher added value. The main thesis is that creating more jobs with higher productivity of labor and higher wages could be a successful policy for better balancing of the demand and supply of labor, for compensation of the shortage of labor force and for improvement of its quality. The better working conditions and the higher wages are prerequisites for improving the quality of life, which is an important condition for stimulating the reproduction of the population and for decreasing emigration intentions.*

*The study presents economic arguments for the need for more active stimulation of the investments in economic activities and sectors that create higher added value on the basis of an analysis of various aspects of the structure of the economy; created added value; employed labor force; share of highly technological exports in total export and others. The analysis indicates that the dynamic of job creation in sectors that generate added value is not sufficient, which also conditions the lagging behind of the country in a series of indicators for science intensity and innovation in the European space. These conclusions are supplemented by the results from in-depth interviews, conducted with representatives of branch organizations, employers, local authorities and national institutions, which focused on the conditions and stimuli for investment in sectors and activities with high value added. The summary of the voiced opinions and assessments allows for the synthesis of key aspects of policies that encourage the improvement of the environment and stimulate the creation of workplaces in sectors and activities that create higher value added.*

*JEL: J2, J4, L1, L2.*

**Keywords:** labour force; employment; workplaces; investments; structure of the economy.

*Acknowledgement*

This publication has been possible thanks to the project of IPHS-BAS 'Measures to overcome the demographic crisis in the Republic of Bulgaria'.

*This article can be cited as follows:*

**Beleva, I.** (2022). Encouraging the Investment Activity in High Added Value economic sectors and activity in the Conditions of Demographic Restrictions of the Labour Force in Bulgaria. *Nasselenie Review*, Volume 40, Number 2, 211-239. ISSN 0205-0617 (Print); ISSN 2367-9174 (Online).

The article was published in Bulgarian in *Nasselenie Review*, Volume 37, Number 4, 2019, pp. 657-689.

© I. Beleva, 2022

Submitted – June 2022

Revised – August 2022

Published – September 2022

The author has read and approved the final manuscript.

## INTRODUCTION

Restructuring employment by creating more jobs in sectors and activities with high value added, higher labour productivity and higher labour remuneration, as well as more flexible forms of employment can be successful policies of retention (or return) of the country's young labour force, increasing the attractiveness of work and improving life quality.

Investments made in Bulgaria are a factor of high potential to enhance nation's economic growth, and this is true not only because to their recent low levels and retarded dynamism but also because of their options to ensure a new quality of growth by prioritising their orientation toward activities and sectors generating high value added. New technological processes would reduce the labour intensity in production, but at the same time would require a higher quality of the labour force. The restructuring of employment to sectors and activities creating higher value added in an environment of reduced population growth and, respectively, of the labour force, is an opportunity to better balance the demand and supply of labour, to increase the quality level of the labour force, the productivity of labour and remuneration against it. In this sense, the review of the investment environment and investment policies in the country allows to identify the positive aspects of the investment conditions and policies and to highlight those problem areas in them that discourage investors and reduce investment activity in general and towards higher productive activities and productions, in particular.

*The objective of this study* is to make an assessment of the investment efforts and policies by examining the opinion of both investors and institutions that have been engaged in the investment process; to highlight any possible guidelines that would stimulate investment activity by improving of policies in force or applying some new policies.

Making in-depth interviews based on pre-prepared questionnaires aimed at the target groups (i.e., employers' organisations, individual employers, municipalities and institutions) would deepen the assessments ensuing from the analyses of statistical trends and of the legislation, all this compared with the objectives and policies set out in some fundamental strategic and operational documents.

A number of analyses of economic development show that, hand in hand with the positive trends ensuing from the application of European administration practices, a revision of Bulgaria's industrial policies would be necessary in the context of the common EU policies viewed from the perspective of the national interests, with some clearly defined goals and an instrumentarium aimed at the application thereof in an environment of sustainability, consistency and transparency<sup>1</sup>.

---

<sup>1</sup> The 2020 National Development Programme, the National Reforms Programme, the Strategic priorities of the Bulgarian economy in the context of the Europe 2020 Strategy, 2010, FSS, the Sector strategy for attracting investments in Bulgaria (MIET, BAI, 2011); the *Bulgarian economy: state and development strategy* – an economic strategy of MIET; the Analysis of the potential for economic growth of the sectors of the real economy (Zlatinova, 2015); the Annual Report 2015, III of the BAS [all in Bulgarian].

Such a need is also confirmed when tracking the dynamics of sectoral development according to the change in the share of sectors and activities in the created gross value added and in employment. The data show, in the first place, that the process of restructuring towards higher productivity activities and sectors is proceeding very slowly and the predominant employment is in labour-intensive, traditional, lower productivity activities and sectors. Secondly, the share of industry in gross value added (GVA) is rising, but the share of high-value-added activities is growing slowly and is still insignificant. Thirdly, the share of the high-technology export within the Bulgaria's overall export over the period 2007–2017 remained quite low if compared to what EU average or other EU Member States' export was. Bulgaria lags behind by nearly three times from what the average EU level is in this type of export, with Bulgaria's share thereof being significantly lower, and this would be facing the results of all other East European Member States<sup>2</sup>. While some high-tech sectors and activities have developed quite dynamically, these remain a sort of isolated isles in Bulgaria's economy, with their produce being oriented predominantly to international markets. This is because high-tech jobs are concentrated in a relatively small number of technological companies grouped in a few sectors and, at the same time, these have not proved to be structure determining for Bulgaria's economy or having a transferring effect upon any technological upgrading all down the production chains. A significant part of the higher technological productions and activities are branches of foreign production chains, producing components for final products assembled abroad, which makes the acquired know-how knowledge partial, without any further application in the national economy.

The analysis of the regulatory framework *in the area of promotion of investments in new and more productive jobs* shows that there is a clear legal regulation and various legal possibilities for attracting investors and opening new and more productive jobs. This regulatory framework matches international requirements and is consistent with the tendencies in the other EU Member States, at the same time serving as a framework of the entire investment encouraging process in the country. However, the practical applicability of the current regulatory framework from the point of view of the institutional and organisational structure and the enrichment of the functions of the individual agents involved in the process should be further developed in relation to some *more flexible types of employment contracts and working hours*. At the same time, a low degree of implementation of the existing regulatory options was found. The policies implemented *to promote investment activity* do reflect EU practices targeting the same goals and in this sense they are good in terms of ideas embedded and implementation mechanisms. This being the background, expectations regarding their implementation must be realistic, especially in the conditions of an extremely competitive international investment market.

---

<sup>2</sup> For more details thereto, see I. Beleva, Changes in industry structures and forms of employment, ch. 13 in Borisova-Marinova, K. et al. (2018) [in Bulgarian]. [Demografsko razvities, rabotna sila i trudovi resursi v Balgariya, tom 4] (Demographic development, labour force and labour resources in Bulgaria, vol. 4). In: IDHS BAS. Measures to overcome the demographic crisis in the Republic of Bulgaria, vol. 4. BAS Publishers Professor Marin Drinov. ISBN 978-954-322-964-2 (Print); ISBN 978-954-322-965-9 (Online).