

The potential effects of TTIP on Bulgaria

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Introduction

In mid-2013, the European Union and the United States started negotiating the Transatlantic Trade and Investment Partnership (TTIP). Since then a series of papers have been published analysing the potential effects that the treaty may have on the economies of the EU and the USA. Most evaluations are based on various assumptions about the expected liberalization of trade between the two regional markets, and specifically – about the reduction or the complete removal of tariff and non-tariff barriers to trade.

These research papers can vary quite a lot in their focus and content – they can look at the economy of the EU as a whole, or look at a specific member state or a concrete sector of the market. The assessment of the expected economic effects is usually the conclusion derived from an econometric model and the consequent forecast or simulation based on that model.

The research papers focusing on the potential effects for the EU usually contain concrete forecasts about Bulgaria as a member of the Union, usually by evaluating the possible effect the liberalization of trade with the US may have on Bulgarian exports and GDP.

However, up until this moment, a serious analysis focusing specifically on the possible effects of the future treaty on the Bulgarian economy has not been published. This vacuum is likely one of the causes for the emergence and consequent public spread of various myths about TTIP in the last few months. Some of the most popular myths are that the USA will flood the Bulgarian market with GMO products that only big corporations will benefit from the treaty, and so forth. These myths are based both on the lack of knowledge of the documents of the treaty and the open manipulation of public opinion by some groups.

This paper aims to fill the analytic gap on the topic of TTIP and its effects on the Bulgarian economy. The following research makes use of official Bulgarian and international statistics, and employs the tools of economic analysis to reach its analytic conclusions. On the one hand IME's economists researched the potential direct effects of the treaty on the export of goods from Bulgaria to the US, on American investment in Bulgaria, and on the consumption of Bulgarian households. On the other, the authors also analysed the potential indirect effects on the Bulgarian economy via the so-called supply chains. Supply chains constitute a sizeable and continuously growing indirect export from Bulgaria to the United States. More specifically, Bulgarian producers are participating more and more actively in such chains as suppliers of raw resources and components for European manufacturers that then sell their final products on the American market.

We hope that this paper will lead to a better understanding of the potential effects of the future free-trade treaty between the EU and the USA on the Bulgarian economy. Some of the most widespread myths about the treaty are also explicitly addressed, such as those relating to the competitiveness of Bulgarian exports and the existing tariff and non-tariff barriers between the Bulgarian and American markets. Wherever possible, a quantitative evaluation of the potential effects is also included.

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What, Where, and How is Being Negotiated

What is TTIP

The idea of a free-trade treaty between Europe and the United States has been discussed since the 1990's but it was not until 2011 that the EU and the USA created a workgroup of government experts tasked with outlining the main points of an eventual treaty in the area of trade and investment between the two economic forces. In June 2013 the president of the United States, Barack Obama, along with the chairman of the European commission José Manuel Barroso and the president of the European Council Herman Van Rompuy, announced that they are initiating negotiations on a Transatlantic Trade and Investment Partnership (TTIP).

What is being expected of TTIP

Most generally, the treaty aims to remove barriers to trade in a number of economic sectors in order to increase the volume of trade of goods and services between the EU and the US. Concrete suggestions for a number of sectors of the economy, including industry, the service sector, and farming have already been discussed during the negotiations. The future agreement will also include specific clauses for the protection of foreign investors - for example against attempts to nationalize their business, or against attempts to ban goods and services produced by them with no compensation offered in return.

The main objective of the removal of tariff and non-tariff barriers is to stimulate economic growth, which would lead to the creation of new jobs and lower prices of goods and services. As of this moment several research papers evaluating the potential effects of such an agreement have been published. A [study](#) conducted by the Center for Economic and Policy Research (CEPR) concludes that the treaty will benefit the EU with roughly 119 billion euros per year, and the US with 95 billion euros per year. The exports of all sectors of the economy are expected to rise and this will facilitate the creation of new jobs. The higher demand for resources, components and other materials is expected to affect European exports to other countries. Another paper [shows](#) that a big increase in trade can be expected as well, and in the case of a serious liberalization of mutual trade, the income of the average EU citizen would rise by 5%.

How TTIP is being negotiated

The initial plan is the treaty to be signed within two years of the start of the negotiations, but scepticism that it can happen so fast is increasing. Even so, both sides of the negotiations hope that that the talks will be concluded in a few years. From the side of the European Union, the negotiations are being conducted by the European Commission, represented by the European Commissioner for Trade Karel De Gucht. The Commission is conducting the negotiations in a manner coordinated with the Council in which the governments of all EU member states are represented. The Commission's trade service plays the primary role in the negotiations from the side of the EU, while the United States are represented by the United States Trade Representative (USTR).

Up until this point (April 2015) nine rounds of talks have been completed, and the EU has started publishing the [documents](#) on the basis of which it is negotiating with the US. There are no concrete numbers and details of the reforms which the treaty is going to accomplish, but what is made very clear is that the objective of the treaty is to facilitate trade across the Atlantic through easier access to the corresponding markets, and changes to legislation and rules of trade. Additionally, the documents rebut some of the worries relating to the potential effects the new trade conditions would have on the environment, on natural resources, workplace safety, legislation, and the already established standards.

The nine rounds of talks conducted both in the US and Belgium, covered questions relating to:

- Regulation both on a horizontal level (barriers to trade and coordination of legislation on both sides) and on a vertical (sector) level;
- The reduction of import tariffs;
- Allowing firms from both sides of the ocean to apply for public projects
- Measures for the further facilitation of exports and imports (for example, easier access to information about customs regulation and clearer customs procedures);
- The effect of the treaty on the trade of farm goods (including beef and wine);
- Differences between energy prices and the regulations on pollution in the EU and the US;
- How the treaty will effect healthcare services (for example the prices of pharmaceuticals and reimbursement);
- Intellectual property
- The trade of services, financials, and e-commerce;
- The development and investment in textiles, the chemical industry, pharmacy, cosmetics, medical equipment, automobiles, information and communication technologies, engineering, and pesticides.

Analysis of the Expected Effects of the Trade Agreement between the European Union and the United States

So far, several research papers analysing the possible impact of the signing of the treaty between the EU and the US have been published.

The most extensive [research](#) was conducted more than a year ago by the Center for Economic and Policy Research (CEPR) and, after making some reasonable assumptions about the future agreement, it measures the potential effects of its signing. We must keep in mind that the average level of tariffs between the EU and the US is already relatively low, but the non-tariff barriers (NTBs) from both sides of the ocean constitute a serious impediment to trade and investment. The paper analyses what influence the removal of these barriers could have and it assumes that there are two possible scenarios: 1) partial liberalization of trade which includes a 10% reduction of trade expenditures resulting from abolishing some NTBs and an almost complete removal of tariffs (98% of them) and 2) an ambitious scenario in which trade expenditures caused by NTBs fall by 25% and a complete

removal of tariffs. The estimates in the second scenario, which includes a serious liberalization of trade between the EU and the USA, show that:

- The treaty will lead to the gain of 119 billion euros per year by the EU, and 95 billion euros per year by the US. This corresponds to an extra 545 euros in the yearly disposable income of each European household and 655 extra euros in the yearly disposable income of every American household.
- The gains for the EU and the US will not be to the detriment of the rest of the world. On the contrary, the liberalization of trade between the EU and the US will have a positive effect on world trade as well, increasing global income by nearly 100 billion euros.
- The increase in income stems from the expansion of trade. Overall exports would increase by 6% for the EU and by 8% for the US.
- The reduction of NTBs is the key to the liberalization programme of the transatlantic partnership.
- The increase in economic activity and productivity, as a consequence of the treaty, will lead to gains both for the European and American labour markets, expressed in an increase of wages and jobs for both the highly qualified, and the less qualified workers
- The treaty will have a negligible effect on CO2 emissions and the sustainable use of natural resources.

In early 2015 the European Commission published a large-scale [research](#) of the potential effects of TTIP on small and medium enterprises (SMEs) in the EU. The report outlines the importance of SMEs for exports from the EU to the US. In 2012, 88% from all enterprises in the EU which were exporters across the ocean were SMEs, and their export was equivalent to 28% of the total volume of exports by European enterprises to the US. In Bulgaria 87% of the firms exporting to the US are SMEs and their sales in the US account for 40% of the total value of Bulgarian exports to this market. The report concludes that TTIP presents the best opportunity for lowering the expenditures of SMEs and opens up new markets, which will benefit enterprises from both sides of the Atlantic Ocean.

Another [research](#) (Felbemayr, G., 2013) shows that a serious rise in trade can be expected. In the case of a serious liberalization of trade the income of EU citizens would increase by 5% on average. This paper also considers NTB's as the main obstacle to trade and analyses two scenarios: partial liberalization (i.e. the removal only of tariff barriers) and comprehensive liberalization. In the first scenario the gains to the European Union would be an increase in the income per person of the population by 0.27% (0.23% for Bulgaria) in the next 10-20 years, while in the second case the gain would be an increase of 4.95% (4.83% for Bulgaria). The difference in gains to different European states is conditioned by the structure of their trade and their geographic location, but both scenarios envisage that the treaty will lead to a further convergence inside the EU itself.

A number of papers have already been published which analyse the treaty from another angle and come to the conclusion that in some cases the effects to be expected are seriously smaller. One such [research](#) (ÖFSE, 2014) concludes that:

- The benefits to be gained from the treaty are very small and are being overstated
- The social expenditures due to the change in legislation could be significant
- Most research papers on the topic underestimate the potential negative effects

Various articles also talk about the harm which the treaty could cause, even though these claims are not confirmed or are being directly denied by the European commission (for example, the worries about food safety, prices of medicine, the protection of privacy, and copyright issues). A big part of the criticisms relate also to the lack of transparency on certain issues which are being discussed during the negotiations. The EC is continuing its efforts to address this issue and has already published [documents](#) which make it very clear what exactly is being negotiated and in what manner.

The export of Goods from Bulgaria to the United States

Export of goods from Bulgaria to the United States – data and analysis

For 2013 Bulgaria exported the equivalent of 595 million leva (according to the data of NSI) or about 404 million USD, according to the international UN database Comtrade. The United States rank as the 19th biggest export market for Bulgaria and the 9th most significant one amongst countries not members of the European Union. In the last five years (until 2013) our export to the US has registered an average yearly growth of around 15% even though it shrank by 18% in 2013. Even so, the preliminary data for 2014 point to a small rise in exports of 2% in 2014 compared to 2013.

Bulgarian exports to the US by product groups:

	Average annual growth in exports (2009-2013), %	Share of total Bulgarian exports to the USA, 2013, %
Total exports	15	100,0
Machines, nuclear reactors, boilers, and etc.	28	16,4
Electric, electronic equipment	31	11,2
Mineral fuels, oils, distilled products	-6	7,6
Tobacco and tobacco products	-14	7,6
Fertilizers	No data	5,8
Copper and copper products	145	4,7
Furniture, lighting, and others	5	4,6
Clothes and accessories, knitwear or fabrics	37	4,5
Optical, photographic, technical, medical equipment	17	4,3
Aircraft, spacecraft and parts thereof	145	3,5
Albuminoids, modified starches, glues, enzymes	325	3,0
Dairy, eggs, honey	2	2,9
Oil-yielding seeds, grain, seeds	35	2,8
Fruits and vegetables	3	2,1
Pharmaceutical products	169	2,0
Toys, sports equipment	10	1,9
Stone, gypsum, cement, asbestos	15	1,8
Steel and iron products	118	1,3
Glass and glass products	-5	1,3
Etheric oils, perfumes, cosmetics	20	1,3
Rubber and rubber products	90	1,2

Food scraps, grain fodder	229	1,0
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Source: [Trade Map](#), the data on tariffs are based on the minimal tariff levels in the importing country, the ad valorem tariffs are calculated based on the methodology of the World Tariff Profile (WTP)

Bulgarian exports to the United States are highly diversified, with the most significant article being machinery – it has a share of about 16% according to the database for 2013. It is notable that the two most important articles which are being exported from Bulgaria to the US are product groups with high added value – machines and electric/electronic equipment. Together they account for about 28% of total exports. Both product groups have registered a serious growth in exportation to the US in the last 5 years (until 2013) – around 30% on a yearly basis. Amongst the machines category, the main products are various *computer components and equipment for automatic processing of data*, while in the category of electric and electronic equipment the main products that are being exported are *electric circuits, electric resistors, and traffic equipment*.

Other relatively big product groups in Bulgarian exports to the US are mineral fuels and oils and tobacco and tobacco products, both of which have a share of 8% of total exports. In the first group leading are *petroleum*, and in the second – *unrefined tobacco*. Another 6% of exports are held by artificial fertilizers, while copper and various copper products have a share of 5%. We are exporting both *nitric and phosphorous fertilizers*, while the main copper products are *rods, plates, bands, frames*. Along with the products listed so far we also export *wooden chairs (as well as other metal and wooden furniture); socks; medical equipment; enzymes; cheese; herbs, oil-yielding and sunflower seed; fresh and frozen vegetables; fruits; wheat products; medicines; sports equipment; nails and clips; gravel; glass cups; etheric oils; rubber pipes and hoses; fodder*¹.

Most of the aforementioned products registered an increase in their export value to the United States in the last 5 years, while some of them even registered triple-digit growth (even though in some cases this is due to the low initial base) – amongst them are copper, medicine, steel and iron products, and enzymes. The only exceptions to these positive trends are tobacco and petroleum, which registered a yearly decline. In petroleum exports there has been a serious shrinkage of 40% in 2009 and even though the next few years mark a stable growth in the export level of these goods (even rising to pre-crisis levels) the average yearly dynamic for the past 5 years remains negative. A serious instability of the export of unrefined tobacco is observed, as years of growth in goods sold on the American market are followed by years of decline.

What would Bulgaria gain from the removal of tariff barriers

One of the main arguments of the opponents of the Transatlantic Trade and Investment Partnership is that overall import tariffs for the EU and the USA are already low and their potential removal would have a negligible effect on exports from the EU to the USA, if at all. A more careful look at Bulgarian exports to the United States and the tariff levied on it shows that this is not exactly true. It is true that some of the main articles that are being exported are indeed subject to no tariffs at all, and others are subject to very low tariffs (1-2%), but a third group, which forms a big part of total

¹Judging by the statistic, a portion of 3.5% of total exports to the US is held by “aircraft with weight of over 1.5 tones”. This export starts in 2011 and continues until 2013 (in previous years such export is found only in 2004, equal to roughly 23 mill. Levs). Considering that Bulgaria is not producing aircraft since 1954 and has never been an exporter of aircraft parts, the only logical explanation is that this is simply a case of re-exportation of aircraft through Bulgaria.

exports is subject to double-digit tariffs, sometimes reaching the shocking 45.3% of the value of the good exported as is the case of unrefined tobacco.

Let's take a look at the tariffs in detail. In order to calculate and evaluate the effects of a potential removal of tariff barriers between Bulgaria and the United States, it is important to take a look at the tariffs on the main products which the country exports to this market at the lowest level of the classification. Surveying tariff levels by product group and the particular products in those groups we notice serious differences in tariff levels within a single product group and consequently – between a specific product and the average tariff for the group. For example, tobacco and tobacco products are subject to 30% ad valorem tariff, but for unrefined tobacco which Bulgaria exports to the USA, the level rises to 45.3%.

Surveying the data on Bulgaria's exports to the USA we can see that the two main product groups that are being exported (machines and electric and electronic equipment) are not subject to tariffs. The same applies to fertilizers, furniture, medical equipment, enzymes, sunflower seed, medicine, nails and clips, and gravel. All these products account for 50% of our total exports to the USA. Petroleum, which has a share of 8% of exports, is subject to a 1.1% tariff. Tariffs between 0.1% and 2% are also levied on different oil-yielding seeds (0.1%), medical plants (1.5%), sports equipment (1.9%), etheric oils (1%), rubber pipes and hoses (1.3%). These products account for roughly 12% of our total exports to the USA.

All other products, i.e. **nearly 40% of total exports from Bulgaria to the United States, are subject to tariffs above 2%**. In this group the highest tariffs are on unrefined tobacco (45.3%) which accounts for 8% of exports, cheese (19.6%), which has a share of nearly 3%, and socks (16.7%), which have a share of about 4%. Grain fodder has a tariff of 18% (and a share of about 1%), glass cups with a tariff of 13.2% (and a share of 1%), and vegetables with a tariff of 5.2% (and share of around 2%) also fall in the group of goods subject to relatively high tariffs. Last in this group we find copper products subject to a tariff of either 2.2% or 2.3%, depending on the specific good, but account for a relatively significant share of 5% of Bulgarian exports to the USA.

Product	Tariff (%)
1. Machines, nuclear reactors, boilers, and etc.	0,0
- <i>Computer components</i>	0,0
- <i>Equipment for automatic data processing</i>	0,0
2. Electric and electronic equipment	0,0
- <i>Electronic integrated circuits</i>	0,0
- <i>Electric resistors and rheostats</i>	0,0
- <i>Electric traffic equipment</i>	0,0
3. Mineral fuels, oils, distilled products	0,3
- <i>Petroleum oil</i>	1,1
4. Tobacco and processed tobacco products	30,1
- <i>Unrefined tobacco</i>	45,3
5. Fertilizers	0,0
- <i>Nitric fertilizers</i>	0,0
- <i>Phosphorous fertilizers</i>	0,0
6. Copper and copper products	1,0

- <i>Copper rods and frames</i>	2,3
- <i>Copper plates and bands</i>	2,2
7. Furniture, lighting, and others	1,1
- <i>Wooden chairs</i>	0,0
- <i>Other furniture</i>	0,0
8. Clothes and accessories, knitwear and fabrics	13,6
- <i>Footwear</i>	16,7
9. Optic, photographic, technical, medical equipment	1,5
- <i>Medical equipment</i>	0,0
10. Aircraft, spacecraft and parts thereof	0,0
- <i>Aircraft with weight of over 25 tons</i>	0,0
11. Albuminoids, modified starches, glues, enzymes	1,7
- <i>Enzymes</i>	0,0
12. Dairy, eggs, honey	16,6
- <i>Cheese</i>	19,6
13. Oil-yielding seeds, grain, seeds	1,4
- <i>Oil-yielding seeds</i>	0,1
- <i>Medical plants</i>	1,5
- <i>Sunflower seed</i>	0,0
14. Fruits and vegetables	9,0
- <i>Vegetables</i>	5,2
15. Pharmaceutical products	0,1
- <i>Dosed medicine</i>	0,0
16. Toys, sports equipment	0,7
- <i>Sports equipment</i>	1,9
17. Stone, gypsum, cement, asbestos	1,5
- <i>Crushed stone, gravel</i>	0,0
18. Steel and iron products	1,1
- <i>Nails, clips</i>	0,0
19. Glass and glass products	3,9
- <i>Glass cups</i>	13,2
20. Etheric oils, perfumes, cosmetics	0,8
- <i>Etheric oils</i>	1,0
21. Rubber and rubber products	1,8
- <i>Rubber pipes, hoses, and etc.</i>	1,3
22. Food scraps, grain fodder	3,5
- <i>Grain fodder</i>	18,0

Source: Trade Map

The table above clearly shows that if the transatlantic treaty leads to the removal of tariffs in trade between the USA and the member states of the European Union this will lead to direct positive effects for over 50% of Bulgarian exports to the United States and this effect will be especially pronounced for those that are subject to relatively high tariffs, which add up to about 40% of all goods exported to the US.

The competitiveness of Bulgarian goods exported to the United States

A survey of the Index of revealed comparative advantage (employed for the first time by Bela Balassa²) for the main goods we export to the United State, shows that overall Bulgaria is exporting highly competitive goods to the American market. Meaning - the Index of revealed comparative advantage (IRCA) for most goods exported is above 1³ and in some cases it even reaches double-digit values, which demonstrates serious competitive advantages. Some exceptions to this rule are machines, and more specifically, the machines for automatic data processing, for which the IRCA is 0.2 (i.e. lower than 1), electric circuits (part of the product group “Electric and electronic equipment”), for which the IRCA is also 0.2. Other such exceptions are crushed stones and gravel (IRCA of 0.5) and medical equipment (lower than 1 for all products of this type). What is interesting is that for all of these goods the import tariff is 0% i.e. even though they do not have a competitive advantage, the lack of tariffs helps them find a market in the United States⁴.

Index of revealed comparative advantages of the main products which Bulgaria exports to the United States

Product	IRCP
1. Machines, nuclear reactors, boilers, and etc.	
- <i>Machines for automatic data processing</i>	0,2
2. Electric and electronic equipment	
- <i>Electronic integrated circuits</i>	0,2
- <i>Electric resistors and rheostats</i>	8,8
- <i>Electric traffic equipment</i>	0,5
3. Mineral fuels, oils, distilled products	
- <i>Petroleum oil</i>	2,4
4. Tobacco and processed tobacco products	
- <i>Unrefined tobacco</i>	10,7
5. Fertilizers	
- <i>Nitric fertilizers</i>	2,2
- <i>Phosphorous fertilizers</i>	27,0
6. Copper and copper products	
- <i>Copper rods and frames</i>	15,3
- <i>Copper plates and bands</i>	20,0
7. Furniture, lighting, and others	
- <i>Wooden chairs</i>	2,0
- <i>Other furniture</i>	1,0
8. Clothes and accessories, knitwear and fabrics	
- <i>Footwear</i>	2,4

²The Index of Revealed Comparative Advantage (IRCA) is used for measuring the competitive advantages (or lack thereof) of the goods and services exported by a given country. The index is based on David Ricardo’s concept of comparative advantages in foreign trade and was employed for the first time in 1965 by Bela Balassa.

Index of revealed comparative advantage = $(E_{ij}/E_{it}) / (E_{nj}/E_{nt})$

E – exports; i – a given state; n – a group of states; j – good or service; t – a group of goods and services

In effect the index represents the proportion between the share of a given good in the total exports of a given state and the share of world exports of this good or service in total exports

³IRCA of above 1 means that the given good/service has competitive advantages

⁴The same is the situation with the Bulgarian export of planes to the USA; IECA is 0.1, but the tariff is 0, which has obviously facilitated the (re)exportation of these goods from/through Bulgaria

9. Optic, photographic, technical, medical equipment	
- <i>Medical equipment</i>	<1
10. Aircraft, spacecraft and parts thereof	
- Aircraft with weight of over 25 tons	0,1
11. Albuminoids, modified starches, glues, enzymes	
- <i>Enzymes</i>	4,3
12. Dairy, eggs, honey	
- <i>Cheese</i>	2,1
13. Oil-yielding seeds, grain, seeds	
- <i>Oil-yielding seeds</i>	2,5
- <i>Medical plants</i>	5,0
- <i>Sunflower seed</i>	126
14. Fruits and vegetables	
- <i>Vegetables</i>	>1
15. Pharmaceutical products	
- <i>Dosed medicine</i>	1,5
16. Toys, sports equipment	
- <i>Sports equipment</i>	2,1
17. Stone, gypsum, cement, asbestos	
- <i>Crushed stone, gravel</i>	0,5
18. Steel and iron products	
- <i>Nails, clips</i>	2,0
19. Glass and glass products	
- <i>Glass cups</i>	4,8
20. Etheric oils, perfumes, cosmetics	
- <i>Etheric oils</i>	6,5
21. Rubber and rubber products	
- <i>Rubber pipes, hoses, and etc.</i>	5,4
22. Food scraps, grain fodder	
- <i>Grain fodder</i>	2,9

Source: Trade Map

The converse situation, namely – highly competitive products and high tariffs – is also observed in the data. For example, unrefined tobacco which is subject to a 45.3% tariff has an IRCP of 10.7 – one of the highest IRCPs amongst the goods that are being exported to the American market. It can be assumed then, that the high competitiveness of this product compensates for the massive tariff burden. Even so, the overall picture is mixed, i.e. we cannot draw a direct relationship between the IRCP and the level of tariffs levied on different goods. There are even cases in which highly competitive goods are subject to no tariffs at all – examples are rheostats (with an IRCP of 8.8) and enzymes (4.3).

The other very competitive goods that Bulgaria exports to the United States are sunflower seeds (with an index of 126 and no tariffs), copper products (copper plates with an index of 20 for and tariff of 2.2% and copper rods and frames with an index of 15.3 and a tariff of 2.3%), and phosphorus fertilizers (with an IRCP of 27 and no tariff). The remaining product groups and goods are with an index between 1.5 and 6 i.e. in their case we also find revealed competitive advantages.

The survey of tariffs and the competitiveness of goods exported to the USA suggest the following conclusions:

- A large share of Bulgarian exports to the United States is highly competitive, i.e. with an index of revealed comparative advantage of over 1.
- It is notable that virtually all non-competitive goods (according to the IRCP) are not subject to tariffs i.e. we can assume that the lack of tariffs has facilitated their exportation.
- The case of unrefined tobacco, which has the third largest share of exports to the USA, is quite curious. In this case the tariff is massive, but the serious competitiveness of the product is probably what helps the realization of its export despite the tariff barrier.
- Considering the fact that as of this moment about $\frac{3}{4}$ of Bulgarian goods exported to the United States are highly competitive, we can assume that with the removal of tariffs for other goods which are not as competitive and for which the tariffs are an additional impediment will be able to break into the American market.

One of the widespread myths around TTIP is that Bulgaria does not produce highly competitive goods and consequently its exports are not competitive as well. The data clearly shows that a big portion of Bulgarian exports to the USA is constituted by goods with high revealed competitive advantages. If tariff barriers to mutual trade are abolished we can expect that products which have an IRCP of less than 1 and are not exported to the United States will be able to break through to the American market. This conclusion is supported by the current level of exportation of several Bulgarian products with an index lower than 1, but which are also subject to no tariffs.

Export of Services from Bulgaria to the United States

Export of services from Bulgaria to the United States – data and analysis

Aside from goods, Bulgaria is also exporting an ever-growing volume of services to the United States, the value of which reached 295.5 million dollars in 2013, or in other words, 3.9% of all services exported by Bulgaria. It must be noted that the exportation of services to the USA is has been rising both in absolute terms (with 59% since 2009) and in relative terms as a share of the total export of services – from 2.7% in 2009 to 3.9% in 2013.

Export of services from Bulgaria to the United States, in thousands of dollars

	2009	2010	2011	2012	2013
Total services	186196	205092	223966	256890	295885
<i>1. Travels</i>	<i>49328</i>	<i>46027</i>	<i>49060</i>	<i>49275</i>	<i>60272</i>
1.1. Business travels	14830	14214	15643	15111	
- Expenditures on seasonal and border workers	982	676	711	657	
- Other business travels	13848	13537	14931	14455	
1.2. Personal travels	34492	31813	33417	34165	
- Health expenditures	185	0	0	0	
- Education expenditures	2914	2707	3554	3284	
- Other personal travels	31393	28429	29863	30879	
<i>2. Transportation</i>	<i>17239</i>	<i>35198</i>	<i>30573</i>	<i>32194</i>	<i>23942</i>
2.1. Water transport	7919	12183	4977	3942	
- Freight transport	2907	2707	2844	3284	
- Accompanying, auxiliary and other sea transportation services	5019	9476	2133	657	

2.2. Air transport	8602	21660	24174	26280	
- Passenger	6782	6092	7110	6570	
- Freight	1037	1354	1423	1315	
- Accompanying, auxiliary and other air transportation services	774	14214	15643	18396	
2.3. Other transport	717	676	1423	1315	
- Passenger	21	0	0	0	
- Freight	583	676	1423	1315	
- Others	107	0	0	0	
2.4. Land transport	605	676	1423	1315	
- Passenger	21	0	0	0	
- Freight	583	676	1423	1315	
2.5. Transport by internal water routes	114	0	0	0	
- Accompanying, auxiliary and other transport services by internal water routes	107	0	0	0	
3. Communication services	7614	6092	7821	8541	7719
3.1. Postal and courier services	1308	2031	3554	5256	
3.2. Telecommunication services	6305	4061	4266	3284	
4. Construction services	774	0	0	1971	0
- Construction abroad	491	0	0	0	
- Construction at home	292	0	0	1315	
5. Insurance services	9504	2707	711	3284	5937
5.1. Other direct insurance services	9504	2707	711	3284	
6. Finance services	2672	1354	1423	1971	4072
7. Computer and information services	42106	56857	73944	95924	120954
7.1. Computer services	40628	52795	68967	90010	
7.2. Information services	1479	4738	4977	6570	
8. Author's and license taxes	2879	676	2133	6570	3393
8.1. Franchise and similar rights	100	0	0	0	
8.2. Other copyright and license taxes	2779	676	2133	6570	
9. Other business services	36127	31813	33417	44019	51783
9.1. Trade services and other services related to trade	2879	2031	711	1315	
- Trade services	491	0	0	0	
- Other services related to trade	2389	2031	711	1315	
9.2. Operative leasing services	767	0	0	0	
9.3. Various business, professional and technical services	32473	29782	32707	42705	
- Legal, accounting, managing services and public relations	9206	8123	10664	12484	
- Legal services	1742	2031	1423	3284	
- Accounting, auditing services and tax consultancy	1592	4738	6399	5913	
- Business and managing services, public relations	5871	1354	2844	3284	
- Advertising, sociological services and market research	4606	4061	2844	3284	
- Research and development services	4869	10830	9243	7227	
- Architectural, engineering and other technical services	3099	2031	711	3284	
- Farm, mining services and processing sites	1607	0	1423	657	
- Waste collection and cleaning of polluted areas	36	0	0	0	
- Other farm, mining services and processing sites	1571	0	1423	657	
- Other various business, professional and technical services	3768	3384	7110	11826	

- Services between joint enterprises	5318	1354	1423	3284	
10. Personal, cultural and entertainment services	15839	24368	24174	13797	17813
- Motion picture, video and television programme production services, sound recording	13236	24368	24174	13140	
- Other personal, cultural and entertainment services	2608	0	0	657	
11. Government services	2104	0	0	0	
- Embassies and consulates	2104	0	0	0	

Source: Trade Map

The most significant article in the export of services to the United States in 2013 was *computer and information services*, which accounts for about 121 million dollars, or 41% of total services exported. It is notable that the export of computer and information services has multiplied by a factor of 3 between 2009 and 2013, as computer services, i.e. software development account for 90% of the export of such services (94% for 2013). The second biggest article in this category is *travel services*, which forms about 20% of all services exported to the US. Personal travels amount to over 2/3 of all travels, the rest being business travels. After a relatively stable value of travels in the period 2009-2012, in 2013 we observe a sharp increase of 22%.

The third most significant article in service exports to the USA is the so-called “*Other business services*” category which also registered a fast increase in the last years (after a decrease in 2010) and in 2013 occupied a share of 17.5%. About 97% of these services fall in the group of “*Various business, professional and technical services*” which includes legal, accounting, managerial, PR, advertising, sociological, research, development, architectural, engineering, technical, and other services, including such between joint enterprises. That is to say, this article, most generally, represents the so-called outsourcing of various business services from American to Bulgarian firms.

The other relatively significant articles are *transport services* (mainly air transportation and water transportation) with a share of 8.1% of total export of services in 2013 and *personal, cultural and entertainment services* with a share of about 6%. Air transport has a share of 82%, and sea transport of 28% of transport services, according to the database for 2013. On the other hand the category of *personal, cultural and entertainment services* is dominated by audio and video services, which is probably due to the frequent shooting of American cinematic productions in Bulgaria (in “*Boyana Film*”) because of the low costs. Communication services (courier, postal, and telecommunication services), insurance services, and finance services all have relatively small shares of total service exports – 2.6%, 2% and 1.4%, respectively.

Services Trade and TTIP

Even though the trade of services between Bulgaria and the United States is not subject to tariffs, non-tariff barriers do apply with full force. This is the reason why the trade of services, or at least some important aspect of it, are also a part of the negotiations over the Transatlantic Trade and Investment Partnership (TTIP). Most generally, for this part of the treaty the EC has set the following goals:

- **Market access** - i.e. the removal of the obstacles which European companies face in maritime transportation (loading and unloading at harbours) and other services

- **Mobility** – i.e. providing the opportunity for architects, lawyers, and other professionals to work on both sides of the Atlantic ocean, through a mutual recognition of qualifications, licenses, permits, and other documents
- **Licenses and formal permits** – the negotiation of such standards which will make the process of attainment of licenses and permits for providing banking, accounting, legal, managerial and other services faster and clearer
- **New rules** – the negotiation of new rules for key sectors of the European economy like telecommunications, electronic trade, finance services, postal and courier services, sea transport, and etc. The new rules will facilitate exports by guaranteeing that European and American companies will compete on equal footing on both markets, governments treat European and American companies equally, and regulators work closely together
- **Security** – guarantees from the side of the United States that European companies will have at the very least the same level of access to the American market as they have today
- **Protection** – protection for sensitive sectors like radio, television, and film; public education and healthcare; social services; water supply

Considering the fact that all of the aforementioned services, specifically – business services, sea transport, finance and insurance services, communication services – form a significant part of the Bulgarian export of services to the USA (more than 20%), the attainment of the goals listed above will certainly benefit Bulgarian exporters i.e. an increase in the exportation of these services can be expected. Parallel with that we can also expect that the relaxed export conditions between the EU and the USA will open the possibility for the export of other services which at the moment cannot occur, because of the serious non-tariff barriers.

We must also note the fact that some of the primary exporters of goods and services from Bulgaria to the United States are American investors in Bulgaria. Therefore, the removal of tariff and non-tariff barriers to trade is likely to lead to more American investment in Bulgaria both in already existing and in new companies.

Of course all of this would also mean an easier access of American goods and services to the Bulgarian market. Here we must note, however, that the cost of labour in Bulgaria remains the lowest in the EU and is thus significantly lower than that in the USA. Therefore, those goods and services in the production of which labour is a primary input will have a much harder time breaking into the Bulgarian market because Bulgarian goods and services will continue enjoying a competitive advantage in this area for years to come. In other words, the price advantage of Bulgarian producers because of lower labour costs which is an objectively significant barrier to the influx of labour-intensive products from the USA will remain even after the potential signing of the transatlantic treaty. At the same time however, American energy-intensive economic sectors will have analogical advantages on the European and the Bulgarian markets, because of the lower prices for energy components.

Supply Chains

With the globalization of the world economy the production processes of a lot of goods are not carried out in a single country. The raw materials and components of the final products are collected from different parts of the world and thus the resources of various countries are employed in the production of the final good. In order to evaluate the ever-growing importance of supply chains for economic growth, development, and the creation of new jobs, in July 2014 OECD, the World Trade Organization and the World Bank published a [paper](#) on the challenges, perspectives and possible suggestions for policies related to supply chains. This paper reports that intermediate goods and services and capital goods account for more than 70% of world trade. In the last 15 years the income received through supply chains has doubled on average. At the same time, the firms participating in such processes register higher productivity, contribute to increases in GDP, stimulate innovation, have a wider access to markets, and research and implement new technologies. An improvement in economic conditions can be observed both in developed and developing countries. The report also examines the prerequisites and barriers which countries face in order to participate in supply chains, including geographic location, resource security, legislation, infrastructure, workforce qualification, business climate and others. The policies recommended by the report, which facilitate the widening of the scope of supply chains, focus on the institutional framework which must support and not limit competitiveness. In addition, the biggest difficulties facing exports are unsatisfactory infrastructure, limited access to financing and an unfavorable business environment.

Bulgaria also participates in such supply chains, exporting raw materials and intermediate goods for some countries which employ those goods in the production of their own final products, which are then sold in third countries. In the foreign trade relations of Bulgaria, the European Union, and the United States we find numerous examples of such supply chains. The European Commission⁵ reports that in the last years two thirds of the imports into the EU are of raw materials, intermediate goods and components which are employed in the production of goods for final consumption. The products from Bulgaria bring benefits both for the country of origin, and for the importing country.

A potential free-trade and investment partnership between the EU and the USA would affect the Bulgarian economy not only by line of the direct export of goods and services to the USA, but also by line of the so-called supply chains in which Bulgarian producers participate. The movements of these supply chains can be traced by researching the input resources in the production of final goods in the European Union.

In 2011 Bulgaria exported to the EU-28 raw materials and resources worth a total of 8321 million US dollars. The highest is the value of Bulgarian materials employed in processed metals – 1460M US dollars (the imports are primarily metals and more specifically – copper), food products, drinks, and tobacco products – 918M dollars (main imports are raw materials for foods, drinks and tobacco and tobacco products), construction – 574M dollars (main imports are metals and non-metal mineral raw materials).

At the same time the exported raw materials and resources fall primarily in the group of metals – 2071 million dollars (employed in all aforementioned groups of final products, primarily in the processing of metals), food products, drinks, and tobacco products – 1054M dollars (used in the

⁵EC, [“The Policies of the European Union: Trade”](#), 2014

same group), electric, gas, and water supply – 731M dollars (spread across all production groups in the EU).

Raw materials and resources from Bulgaria employed in the production of final products in the countries of EU-28, 2011

Million USD	Export of Bulgarian raw materials and resources for the EU-28 (input)	Final products produced in the EU-28 (output)
TOTAL	8 321	33 450 329
Products of agriculture, hunting and related services	410	652 085
Mining industry	41	217 757
Food products, drinks, and tobacco products	918	1 263 114
Textile and textile products	133	240 795
Leather and leather products; shoes	18	64 417
Wooden material and products made of wood and cork	45	169 010
Cellulose, paper, printing and paper products	85	558 739
Coke, refined petroleum products and nuclear fuels	130	710 047
Chemicals and chemical products	323	957 752
Rubber and plastic	132	353 456
Products made of other non-metal mineral resources	136	291 472
Basic and processed metals	1 460	1 342 204
Machines, not included anywhere else	455	953 680
Electric and optical equipment	352	915 255
Transport technics	447	1 293 779
Productions, not classified anywhere else; recycling	158	298 929
Electric, water and gas supplying	329	1 021 797
Construction	574	2 333 985
Sale, maintenance and repairs of automobiles and motorcycles; wholesale fuels	61	548 599
Wholesale and trade intermediation, excluding automobile and motorcycle trade	244	1 605 060
Retail, excluding automobile and motorcycle trade; repairs of household goods	141	1 233 987
Hotels and restaurants	177	917 114
Internal transportation	177	797 369
Water transportation	135	176 043
Air transportation	77	170 803
Other supporting and subsidiary transport activities; activities of tourist agencies	162	680 638
Post and telecommunications	104	664 048
Financial mediation	71	1 759 845
Real estate	83	2 303 960
Rent of machines and equipment; other business activities	203	3 394 493
Public administration and defence; public insurance	156	1 526 260
Education	53	1 012 732
Healthcare and social services	203	1 844 487

Other public, social and individual services	127	1 176 619
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Source: The World Input-Output Database (WIOD)

The total value of all raw materials and resource imported by EU-28 in 2011 is 16 658 158 million USD and the produced products for final consumption⁶ reach 33 521 044 million USD. Out of those EU-28 exports goods with total value close to 6 000 000 million dollars, the main trade partner outside the EU being the United States itself. In 2014 the goods exported to the USA were valued at 409 636 million dollars, which equals about 7% of total exports and 1.2% of everything produced in the member states of the union.

Raw materials and resources from Bulgaria, employed in the production of final products in the countries of EU-28 and export of goods from EU-28 to the USA, 2011

Million USD	Export of Bulgarian raw materials and resources for the EU-28 (input)	Final products produced in the EU-28 (output)	Export of goods from EU-28 to the USA
Products of agriculture, hunting and related services	410	652 085	1 685
Mining industry	41	217 757	3 718
Food products, drinks, and tobacco products	918	1 263 114	16 952
Textile and textile products	133	240 795	4 942
Leather and leather products; shoes	18	64 417	93
Wooden material and products made of wood and cork	45	169 010	899
Cellulose, paper, printing and paper products	85	558 739	2 792
Coke, refined petroleum products and nuclear fuels	130	710 047	22 207
Chemicals and chemical products	323	957 752	83 323
Rubber and plastic	132	353 456	6 321
Products made of other non-metal mineral resources	136	291 472	3 947
Basic and processed metals	1 460	1 342 204	24 205
Machines, not included anywhere else	455	953 680	48 208
Electric and optical equipment	352	915 255	43 382
Transport technics	447	1 293 779	66 485
Productions, not classified anywhere else; recycling	158	298 929	948

Source: WIOD, Eurostat, and IME's calculations

Keeping in mind the size of the raw materials and resources exported from Bulgaria and their use in the production of final products in EU-28, the contribution of the country in total production is close to 17 000 million dollars or 0.05% of everything produced in the EU. This means that Bulgarian products which participate in the supply chain Bulgaria – EU-28 – United States are worth over 200 million US dollars. This is higher than the value of half of the direct export of Bulgaria to the USA. The whole picture shows that 2/3 of the export of Bulgaria to the United States is direct, with the remaining 1/3 being indirect via the supply chain through EU-28.

⁶Products for final consumption = general intermediate consumption + taxes minus product subsidies + corrections for the international terms of trade (CIF/FOB) + direct purchases abroad by local citizens + local purchases by non-residents + added value in constant prices + international transport charges.

All of this demonstrates the importance of free trade and the removal of tariff and non-tariff barriers to trade between the EU and the USA. Bulgaria can benefit both as a direct exporter to the United States, and as an indirect one thanks to the fact that it exports raw materials and resources to the EU, employed in the production of final goods which are then exported to the American market.

Import from the United States and the Potential Effects on Consumers

In 2013 Bulgaria imported American goods worth over 262 million dollars, which is roughly 1% of overall imports. Even though the value of American imports shrank with 8% during the 2009-2012 crisis in 2013 it recovered and grew by 18% relative to its value in 2012. The volume of Bulgarian exports to the USA continued to be 50% higher than imports from the USA in 2013, but the transatlantic country managed to cement its position and remains as the 23rd biggest import partner for Bulgaria and the 7th amongst so-called “third countries”, i.e. states which are not part of the European Union.

The data for products imported from the USA in 2013 shows that imports are concentrated in several main product groups. Fourteen out of the total 99 groups of products (by the Combined Nomenclature) account for 80% of US imports and the top three products account for over 50%.

The group of “electrical, electronic equipment” has the highest share of American exports with total value of 58.2 million dollars in 2013, followed by “machines, nuclear reactors, boilers and others” (53.6M dollars) and “mineral oils and fuels” (29.5M dollars). In two product groups a rise in imports is observed in the period 2009-2013, and an increase in imports across all product groups is observed in 2013. By the third quarter of 2014 Bulgaria has imported products worth over 300 million dollars, which is higher than the value of total imports from the US in 2013, so the expectations are that the upwards trend in American imports has continued throughout 2014 as well.

Even during the global economic crisis some product groups continued to register remarkable growth. This way for example the import of second-hand clothes, enzymes, precast constructions, and unrefined tobacco increase with about a third for the period 2009-2013.

Bulgaria’s import from the USA

	Value of imports (thousands of dollars), 2013	Yearly growth, 2009-2013, %	Share of all US imports for Bulgaria, 2013, %
Total import from the United States	262 277	-8	100,0%
Electrical, electronic equipment	58 198	5	22,2%
Machines, nuclear reactors, boilers and others	53 624	-10	20,4%
Mineral fuels, oils, distilled products	29 534	4	11,3%
Optical, photographic, technical, medical equipment	22 852	-9	8,7%

Tobacco and processed tobacco products	7 996	32	3,0%
Plastic and plastic products	6 952	6	2,7%
Aircraft, spacecraft and parts thereof	6 479	-6	2,5%
Furniture, lighting, and others	5 541	32	2,1%
Albuminoids, modified starches, glues, enzymes	5 464	35	2,1%
Automobiles, tractors, motorcycles, bicycles and their parts	5 412	-42	2,1%
Various food products	4 699	8	1,8%
Fruits, citrus and melon peels	3 708	10	1,4%
Other ready-made textile articles, assortments and rags	3 044	44	1,2%
Oil-yielding seeds, grain, seeds, fruits	2 979	-29	1,1%

Source: Trade Map

Tariffs on import goods are one of the serious obstacles to free trade, market access, and more product and price variety for consumers. High tariffs are on the one hand barrier to both trading sides and on the other – lead to limitations and increases in expenditures both for the consumer and the enterprises (when the receiving country imports production resources and not ready-made products). Foreign trade data show that out of a total of 100 product groups which Bulgaria imports from the USA only 8 are subject to no tariffs. At the same time tariffs on other product groups (dairy, eggs, honey, meat, sugar) range from 40% to 50%.

Among the products with the highest import volume tariffs range from 0% (for semiconductors, petroleum cork, peanuts) to 10% for automobiles. In the case of most other goods with a large share of imports tariffs are relatively high and in some cases are higher than 5% - unrefined tobacco (8.7%), food stuffs (8.7%), polyvinylchloride (6.5%), second-handwear (5.3%).

Bulgarian imports from the USA - tariffs

	Import value (thousands of dollars)	Tariff (%)
Electric, electronic equipment	58 198	1,9
- <i>Semiconductor elements</i>	<i>18 790</i>	<i>0</i>
- <i>Devices for reception, transformation or voice generation, image or other data</i>	<i>6 728</i>	<i>0</i>
Machines, nuclear reactors, boilers and others	53 624	1,3
- <i>Input /output units, with/without storage</i>	<i>3 835</i>	<i>0</i>
Mineral fuels, oils, distilled products	29 534	0,4
- <i>Petroleum cork, not calcified</i>	<i>29 477</i>	<i>0</i>
Optical, photographic, technical, medical equipment	22 852	1,3
- <i>Instruments and apparatuses for physical or chemical analysis</i>	<i>3 010</i>	<i>0,4</i>
Tobacco and manufactured tobacco products	7 996	29,2
- <i>Unmanufactured tobacco, partly or wholly stemmed or stripped</i>	<i>7 990</i>	<i>8,7</i>
Plastic and plastic products	6 952	6,2
- <i>Polyvinylchloride, not mixed with other substances</i>	<i>4 116</i>	<i>6,5</i>

Aircraft, spacecraft and parts thereof	6 479	1,5
- Aircraft parts	5 694	1,6
Furniture, lighting, and others	5 541	1,5
- Precast constructions	3 794	2,7
Albuminoids, modified starches, glues, enzymes	5 464	7,2
- Enzymes	5 054	3,2
Automobiles, tractors, motorcycles, bicycles and their parts	5 412	8,6
- Automobiles	3 335	10
Various food products	4 699	9,5
- Food products	3 482	8,7
Fruits, citrus and melon peels	3 708	10
- Almonds	3 373	1,8
Other ready-made textile articles, assortments and rags	3 044	10,5
- Second-hand wear and other second-hand textile products	2 312	5,3
Oil-yielding seeds, grain, seeds, fruits	2 979	0,4
- Non-roasted peanuts	2 476	0

Source: Trade Map

The planned removal (or serious reduction) of tariffs via the Transatlantic Trade and Investment Partnership will affect more than 40% of direct imports from the United States.

The main group which will benefit from the reduction/removal of these import tariffs are precisely the consumers in Bulgaria.

On the one hand any limitation that is placed on trade concentrates gains in the hands of the firms from the protected industry, to the detriment of consumers. Protectionism is by definition a state policy of subsidizing particular market players, the negatives of which are borne by the consumers. On the other hand, a strengthening of internal market competition makes it more difficult for monopolies to emerge, leads to a reduction in prices, and greater variety of products which the consumers can enjoy. According to Robert Gilpin⁷ world trade maximizes consumer choice, reduces prices and facilitates the effective utilization of scarce resources. At the same time, open economies help increase the welfare of their citizens through the spread of technologies and know-how, which makes it easier for developing economies to catch up with more developed ones.

Additionally we must take into account the effect of the reduction of tariffs on American imports into the European Union, because American producers participate in the so-called supply chains as well - US resources and raw materials being imported into the EU and then utilized in the production of goods which are later sold in Bulgaria. The removal of tariffs levied on EU imports from the USA will increase the inflow of various products, leading to a greater variety for consumers at lower prices – on the one hand thanks to the lower tariffs and on the other, thanks to the increase in competition. With economic globalization, a large part of products are no longer produced in a single country, but different stages of their production process happen in different countries, which makes free trade one of the most important factors for economic growth, job creation, and securing

⁷Gilpin, Robert, Global Political Economy, 2003

a higher standard of living for citizens. In the past years two thirds of EU imports have been raw materials, resources, intermediate goods, and components needed by European producers. The European Commission stresses⁸ the fact that the restriction of the movement of goods or the increase of import expenditures would lead to a rise of expenditures and a reduction of the competitiveness of producers both in the union and abroad. Additionally the data for EU countries show that an increase in the openness of the European economy by 1% would lead to a 0.6% increase in labour productivity the very next year.

Free trade and the removal of artificial barriers to imports and exports (tariffs and non-tariff barriers) lead to massive benefits both for the economy as a whole and for the consumers of each freely-traded good or service.

Potential Effects on the Investment of American Companies in Bulgaria

The data of BNB on the foreign direct investment from the United States in Bulgaria shows that the USA is the ninth biggest foreign investor in Bulgaria. For the period 1995-2014 the foreign direct investment (FDI) from the United States in Bulgaria amounts to a gross total of 1.468 billion euros, which is 3.4% of all FDI for the period. The USA is actually the only non-European country in the top ten biggest foreign investors in Bulgaria – the rest are either members of the EU, Switzerland, or Russia.

Top ten biggest country investors in Bulgaria for the period 1996-2014 in millions of euros	
1. Netherlands	7147,6
2. Austria	5941,9
3. Greece	3324,9
4. United Kingdom	2549,0
5. Germany	2497,8
6. Cyprus	2107,4
7. Russia	2038,3
8. Switzerland	1555,2
9. USA	1468,2
10. Italy	1410,3

Source: BNB

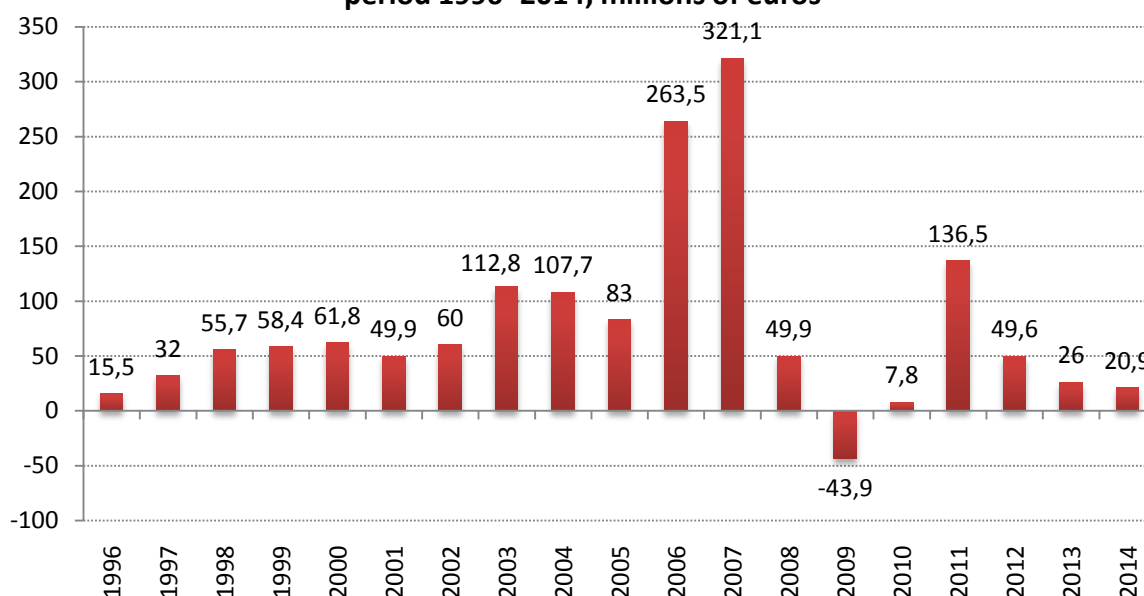
We must note here that a significant portion of the investments from some of the other top 10 country investors in Bulgaria is due to fictive foreign investments. Bulgarian owners of enterprises and businesses take advantage of the favourable tax and regulatory regimes in some foreign countries and register foreign companies there with Bulgarian capital, which then invest back in Bulgaria. Such practices are behind the significant levels of investment from the Netherlands,

⁸EC, [“The Policies of the European Union: Trade”](#), 2014

Switzerland, Cyprus, and other similar states. This scheme is also employed for money laundering or the concealment of the true (Bulgarian) owners/investors due to reputational, tax, or other reasons.

The investments from the USA however are authentic in most cases, i.e. the statistic reveals a real inflow of American capital in already existing or new local firms. The dynamic of the investment flows shows that after a relatively insignificant inflow of American foreign direct investment until 2002, during 2003-2004 they exceeded 100 million euros per year for the first time. The strongest years for American investment – 2006 and 2007 also correspond to the strongest period of foreign direct investment in Bulgaria overall, when the country even ranked amongst the world leaders in attracted FDI with a proportion of FDI to GDP of nearly 30% for 2007.

Foreign direct investment from the United States in Bulgaria for the period 1996- 2014, millions of euros



Source: BNB

Biggest American investors in Bulgaria

Foreign Investor	Local plant	Activity	Location
American Standard	Ideal Standard - Vidima	Production of sanitary ceramics and armature	Sevlievo
AES	TPP "AES Galabovo"	Electricity production	Sofia
Johnson Controls	Johnson Controls Electronics Bulgaria	Production of electronics and car software	Sofia
Microsoft	Microsoft Bulgaria	Computer technologies and software development	Sofia
Tumbleweed	Tumbleweed-Bulgaria	Software development	Sofia
Hewlett Packard	Hewlett Packard Bulgaria	Computer technologies	Sofia
AMIS	AMIS Bulgaria	Electronics	Sofia
IBM	IBM Bulgaria	Computer technologies	Sofia
VMWare	VMWare Bulgaria	Computer technologies (visualizations, cloud infrastructure)	Sofia

McDONALD'S	McDonald's	Fast-food chain	Sofia
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Source: Agency for Investment

The oldest American investment (after the start of the transition) is that of American Standard. In 1992 American Standard along with the state enterprise "Vidima", created a Bulgarian-US joint holding "Vidima Ideal" in Sevlievo and in 1996 it purchased 77% of the factory. In 1997 the company built a second factory on Bulgarian soil – a factory for the production of sanitary ceramics - "Ideal Standard Bulgaria", once again in Sevlievo. In 2007 American Standard sold all of its investments and pulled out of Bulgaria.

Another very serious investment in Bulgarian industry is that of AES in one of the thermal power plants in the Maritsa-East complex. In 1999 the American company AES purchased 88% of the plant and started building new plants right next to it. The old power-plant was taken out of exploitation in 2010 and in June 2011 the new plants with powers of 670 megawatts began operation.

It is notable that a significant part of American investment in Bulgaria is in the sphere of high-technologies, electronics, and computer services – Microsoft, Tumbleweed, IBM, Hewlett Packard, AMIS, VMWare, Johnson Controls. In the past years a lot of smaller American firms also penetrated the Bulgarian market, exporting part of their products developed here back to the United States. These investments are behind the sharp rise in the export of computer services (software development) which has already reached 40% of the total services exported from the Bulgarian to the American market.

We can expect that the eventual signing of the Transatlantic Trade and Investment Partnership will lead to increased American investment in Bulgaria for the following reasons:

1/ the part of the treaty devoted to investment protection will reduce the risk of nationalization or other detrimental actions from the side of the host-state (in this case Bulgaria) towards already present or potential future investors from the United States.

2/ the removal of tariff and non-tariff barriers to mutual trade between the EU and the USA will definitely increase the volume of goods and services exchanged across the Atlantic (all else being equal). Considering that a part of Bulgarian exports to the USA are produced by subsidiaries of American companies in Bulgaria we can expect American investment to increase both in already existing and new companies in the country.

3/ The serious gap in wages which is expected to remain present long-term will continue encouraging American companies to invest in Bulgaria, especially in labour-intensive sectors of the economy where labour is the primary input (i.e. factor of production). This competitive advantage enjoyed by Bulgaria by line of labour costs, supported by the lower level of direct taxation, will remain a primary factor for attracting investments from the USA in Bulgaria for the medium to long term.

Conclusion

The analysis conducted by IME demonstrates the growing importance of the American market for Bulgarian producers of goods and services. The balance of mutual trade remains positive for Bulgaria while the export to the United States is 1.5 times higher than the import from that country. The export of goods as well as services from Bulgaria to the USA has been increasing with double-digit values in the past five years as the USA is now ranking amongst the primary export markets for Bulgaria outside of the European Union. This increase is even more impressive considering the fact that 50% of the goods exported are subject to tariffs.

One of the widespread myths surrounding the free trade treaty currently negotiated by the EU and the USA is that the tariffs in mutual trade are already so low that their complete removal would not have a significant effect. In the case of Bulgaria and her export to the United States however, this is not exactly true, because half of all Bulgarian exports are subject to tariffs. This means that the potential removal of tariffs in mutual trade would have direct positive effects for half of all Bulgarian exports to the American market. Additionally, for nearly 40% of goods exported tariffs are relatively high (over 2%) and in some cases reach double-digit values. Therefore, the direct positive effect will be very significant for about 40% of Bulgarian exports.

Another popular myth is that Bulgaria does not produce competitive goods and consequently the country's exports overall are not competitive. The data clearly shows that $\frac{3}{4}$ of the exports to the USA are highly competitive, i.e. with an index of revealed comparative advantages of over 1. If tariffs levied on goods exported are removed we can expect that even less competitive goods, which are currently not being exported to the United States, will finally be able to penetrate the American market. This expectation is supported by the current level of exportation of several Bulgarian goods with an IRCP lower than 1 (i.e. they are not very competitive) which however enjoy a complete lack of tariffs levied on them.

Aside from the direct exportation of goods and services from Bulgaria to the United States, when attempting to analyse the potential effects of TTIP we must also take account of the indirect effects that might occur via the so-called supply chains. Bulgarian firms are more and more actively participating in such supply chains in the past several years, as they are becoming suppliers of materials and components for big European producers. These European producers then sell a part of their final produce on the American market, which in effect constitutes an indirect export from Bulgaria to the USA.

According to IME's estimates, the indirect export of goods from Bulgaria to the United States via such supply chains amounts to about 200 million dollars. Adding this value to the volume of direct exportation of goods from Bulgaria to the USA, which for 2013 is about 400M dollars, the total export of goods from Bulgaria to the USA adds up to 600M dollars, a third of which is due to indirect exports.

To the export of goods we must add the export of services worth 300 million dollars (for 2013). This way, the total export of goods and services from Bulgaria to the United States reaches 900M dollars or about 840M euros, according to the current exchange rate⁹.

Insofar as the export of services is concerned, the European Commission's stated goals of removing a number of non-tariffs barriers to this type of trade between the EU and the USA, if accomplished, will also have a direct positive effect on Bulgarian exports. The goals of the EC are directly related to business services, maritime transport, financial and insurance services, communication services, which account for more than 20% of services exports from Bulgaria to the United States. We can therefore expect a rise in the export levels of precisely these services. Parallel with this we can expect that the eased export of services from the EU to the USA will open up more possibilities for the exportation of other services, not possible at the moment because of the restrictive non-tariff barriers.

We must also take account of the fact that some of the primary exporters of goods and services from Bulgaria to the United States are American investors in Bulgaria. The USA is the 9th biggest investor in Bulgaria according to the data for cumulative foreign direct investment in the country for the period from 1996 to 2014. During this period American companies invested a gross total of about 1.5 billion euros in Bulgaria, which is 3.4% of all FDI for the period. Unlike some other leading foreign investors on the Bulgarian market like the Netherlands, Cyprus, and Switzerland, whose investments are primarily due to Bulgarian entrepreneurs taking advantage of the favourable tax and regulatory regimes on those countries, the investments coming from the United States are authentic, i.e. they represent an actual inflow of American capital.

It is notable that a large share of American investment in Bulgaria is in the sphere of high technologies, electronics, and computer services – Microsoft, Tumbleweed, IBM, Hewlett Packard, AMIS, VMWare, Johnson Controls are some of the examples. In the last several years some smaller software development firms also arrived to the Bulgarian market, exporting part of their finished products back to the United States. These investments are also behind the sharp rise in the export of computer services (software development) which has already reached a share of over 40% of Bulgarian services exported to the American market.

We can expect that the eventual signing of the Transatlantic Trade and Investment Partnership will lead to an increase in investment from the United States in Bulgaria because of the following reasons:

1/A removal of tariff and non-tariffs barriers to trade between the EU and the United States will undoubtedly increase the volume of trade across the Atlantic (all else being equal). Considering that part of the export from Bulgaria to the United States is produced by subsidiaries of American companies in Bulgaria, we can expect American investments in the country, both in already existing and in new companies, to increase as well.

2/ The part of the treaty devoted to investment protection will reduce the risk of nationalization or other detrimental actions that the host country (in this case Bulgaria) may undertake against existing or potential future investors from the United States.

⁹ As of 23.04.2015

3/ The serious gap in wages, which is expected to remain in place in the long term, will continue to encourage American investment in Bulgaria, especially in labour-intensive sectors of the economy, where labour is a primary input (i.e. factor of production). This competitive advantage enjoyed by Bulgaria by line of labour costs, supported by the lower level of direct taxation will remain a primary factor for attracting investment from the USA in Bulgaria in the medium to long term.

Aside from the export of goods and services and American investment in the Bulgarian market, the treaty will also affect the import of American goods to the Bulgarian market. The foreign trade data shows that out of a total of 100 product groups which Bulgaria imports from the United States only 8 are not subject to tariffs. At the same time tariffs on some product groups (dairy, eggs, honey, meat, sugar) range from 40% to 50%. The planned removal (or significant reduction) of such tariffs via TTIP will affect more than 40% of the main products imported from the United States by Bulgaria.

In the end, free trade and the abolition of tariff and non-tariff barriers facing imports and exports lead to serious benefits both for the overall economies and for the consumers of each good and service which is freely exchanged. The planned treaty between the EU and the US is not going to be an exception. The direct positive effects of TTIP, specifically for Bulgaria, will come by line of the direct and indirect export of goods and services to the US, which is increasing with every year, thus making the United States a more and more important export market for Bulgaria. Investments from the US in Bulgaria will also receive a push, since the abolition of tariff and non-tariff barriers to trade will encourage exportation, part of which is carried out by American firms in Bulgaria. Last, but not least, consumers in Bulgaria will also benefit from the treaty, because around 40% of imports from the US are currently subject to tariffs.

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