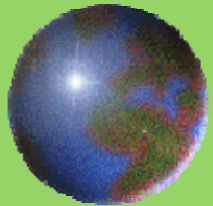




Bulgarian Competitiveness Beyond 2000



Presentation by

Kevin X. Murphy

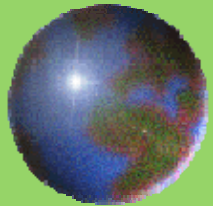
President

J.E. Austin Associates

October 2000



Bulgarian Competitiveness Beyond 2000



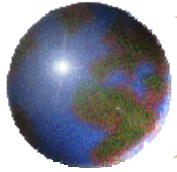
Presentation by

Martin Webber

Vice President

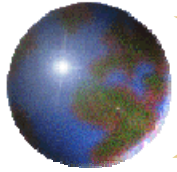
J.E. Austin Associates

October 2000



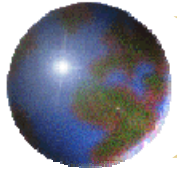
Outline of the Presentation

- Importance of Competitiveness
- What is Competitiveness
- Competitiveness Business Strategy-
Implications of the Diamond
- Look at the Microenvironment of Business
- Implementing Competitiveness



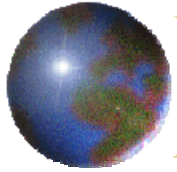
Purpose of Initial Visit

1. Present Tools of Competitiveness
2. Share Examples from Other Countries
3. Discuss Relevancy to Bulgaria



Why is Competitiveness Emerging as the #1 Issue for Leaders?

- Globalization
- Liberalization
- Privatization
- WTO/Regional Trade Agreements
- Technological Change
- Urgent for Transition Economies

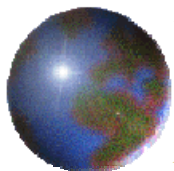


Globalization: Victors or Victims?

Globalization Is Not Optional. Why?

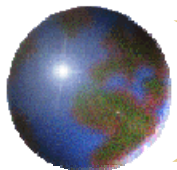
- **Pace of Change Has Accelerated.**
- **Technology Is Driving Change.**
- **WTO Setting Global Trade Rules.**
- **Financial Markets Lift or Bring Down Nations.**
- **Achieving Competitiveness Is Key To Security.**
- **Not Size of Missiles but Speed of Computers.**
- **We Compete with Our Imagination, Not Locks and Keys. (N. Negroponte, MIT)**

Source: Thomas Friedman, The Lexus and the Olive Tree, 1999



J. E. Austin Bulgaria's Competitiveness Benchmarks

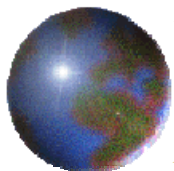
Sector	Percentile Rank
COMPOSITE AVERAGE	52%
<i>Human Resource and Workforce Competitiveness</i>	65%
<i>Infrastructure</i>	64%
<i>Science and Technology Competitiveness</i>	58%
<i>Policy Environment</i>	51%
<i>Investment Competitiveness</i>	52%
<i>Financial Sector</i>	31%
<i>Export Competitiveness and Tourism</i>	41%
<i>Economic Performance</i>	69%



Where is Bulgaria on the Map of Competitiveness?

Indicator	1997	1999
GDP Growth (ranked by % Growth)	-7.0%	2.4%
Exports/Capita	\$537 US	\$481 US
Export % of GDP	61%	44%
ICRG Risk Rating	76.6	71
Overall Budget Deficit	-15.4	1.50%
GDP Implicit Deflator (Inflation)	109.00%	0.4%
FDI as % of GDP	4.9%	6.3%
FDI - Privatization as % of GDP	3.1%	4.4%
Telephone Density (fixed lines per 1,000 people)	323	329
Human Development Index	0.758HDI Value	0.772HDI Value

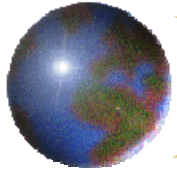
Source: World Bank Indicators, World Bank 2000 and Bulgaria National Bank.



Is Bulgaria Attracting Foreign Direct Investment?

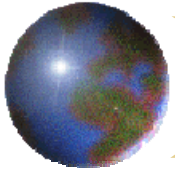
Country	FDI in US\$ Millions	Population Millions	Share of World Population	Share of Global FDI	FDI per capita	FDI/ Population Ratio	Percentile Rank
Singapore	\$10,326	3.164	0.05%	0.78%	3264.20	14.43	95
Ireland	\$4,038	3.705	0.06%	0.30%	1089.88	4.82	88
Spain	\$32,539	39.371	0.67%	2.45%	826.47	3.65	83
Czech Republic	\$2,609	10.295	0.18%	0.20%	253.42	1.12	75
Hungary	\$2,414	10.114	0.17%	0.18%	238.72	1.06	73
Romania	\$2,040	22.503	0.38%	0.15%	90.65	0.40	53
Macedonia, FYR	\$118	2.010	0.03%	0.01%	58.52	0.26	42
Bulgaria	\$401	8.257	0.14%	0.03%	48.61	0.21	37

Source: World Bank, 2000.

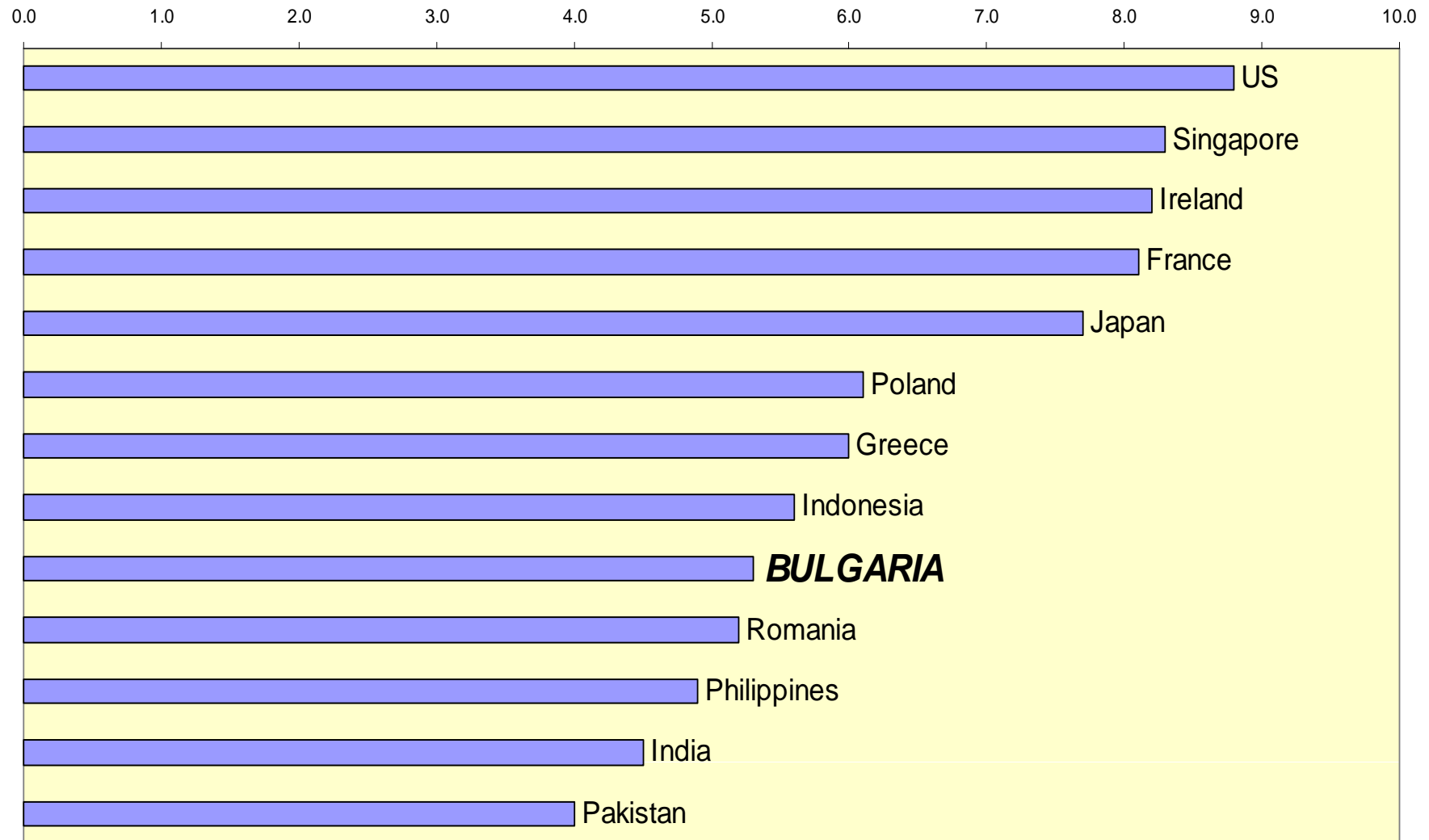


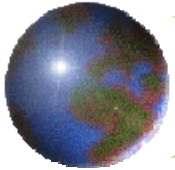
Economist's E-business Readiness Ranking

- **Ranks a country's infrastructure for E-Business based on:**
 - **Connectivity**
 - **Literacy rates**
 - **State of the telephone network**
 - **Teledensity**
 - **Dial up costs**
 - **The general business environment**

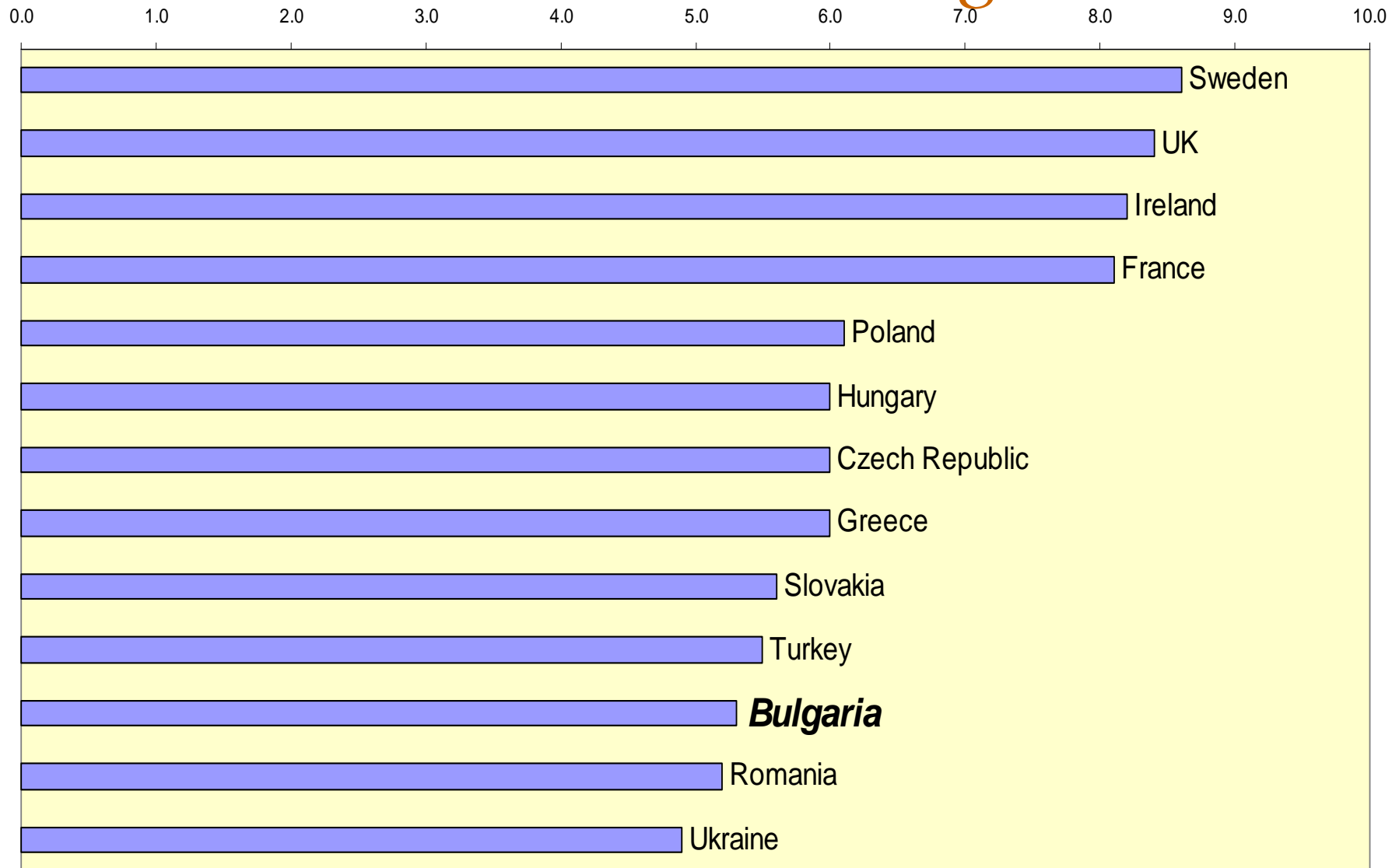


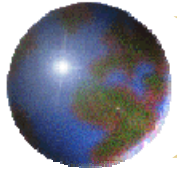
Selected E-business Rankings



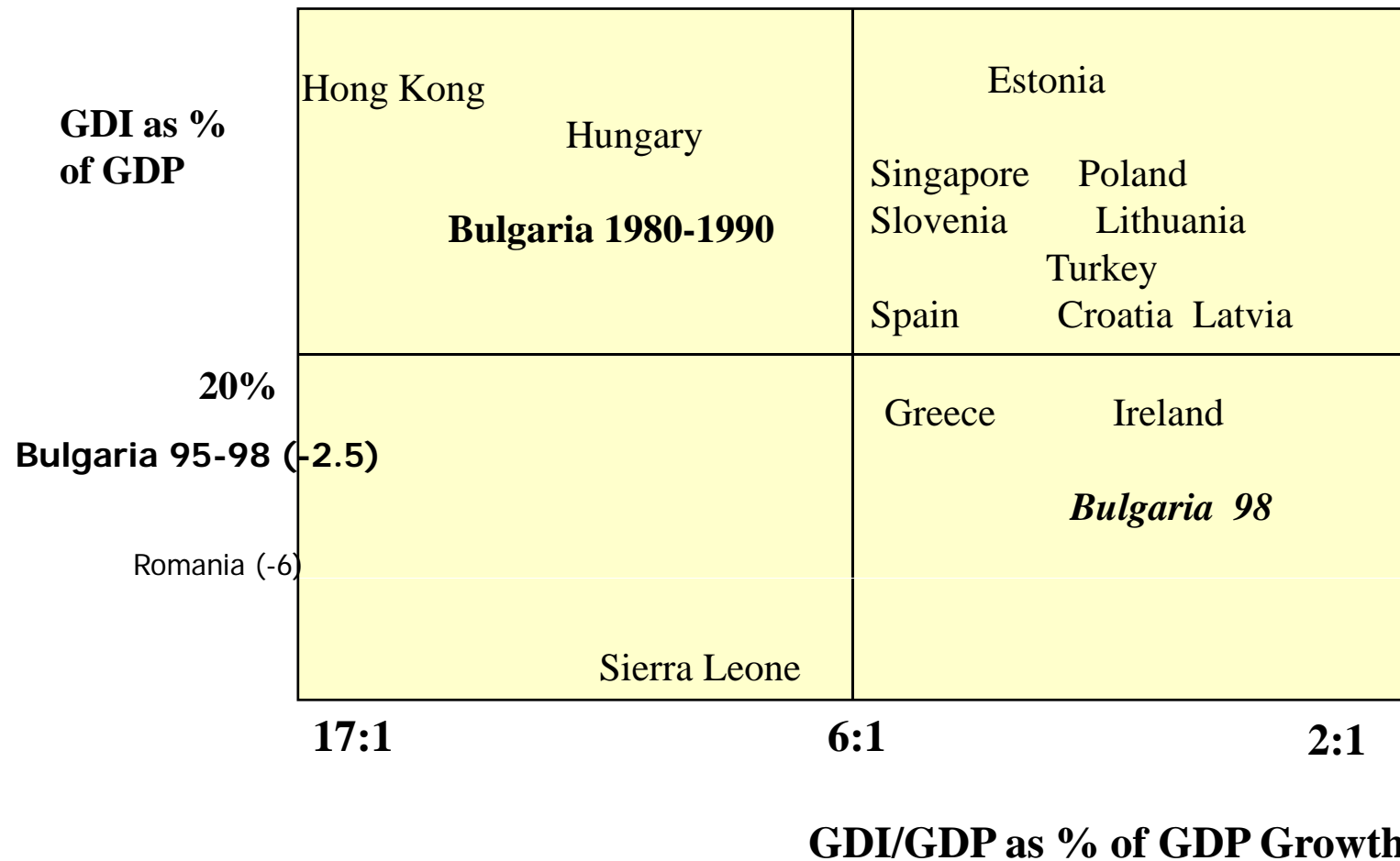


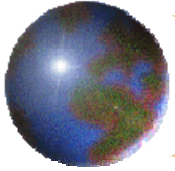
Euro-E-Business Ratings



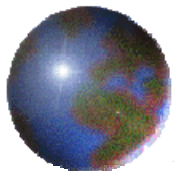


ICOR Investment/Output Ratio 1995-1998



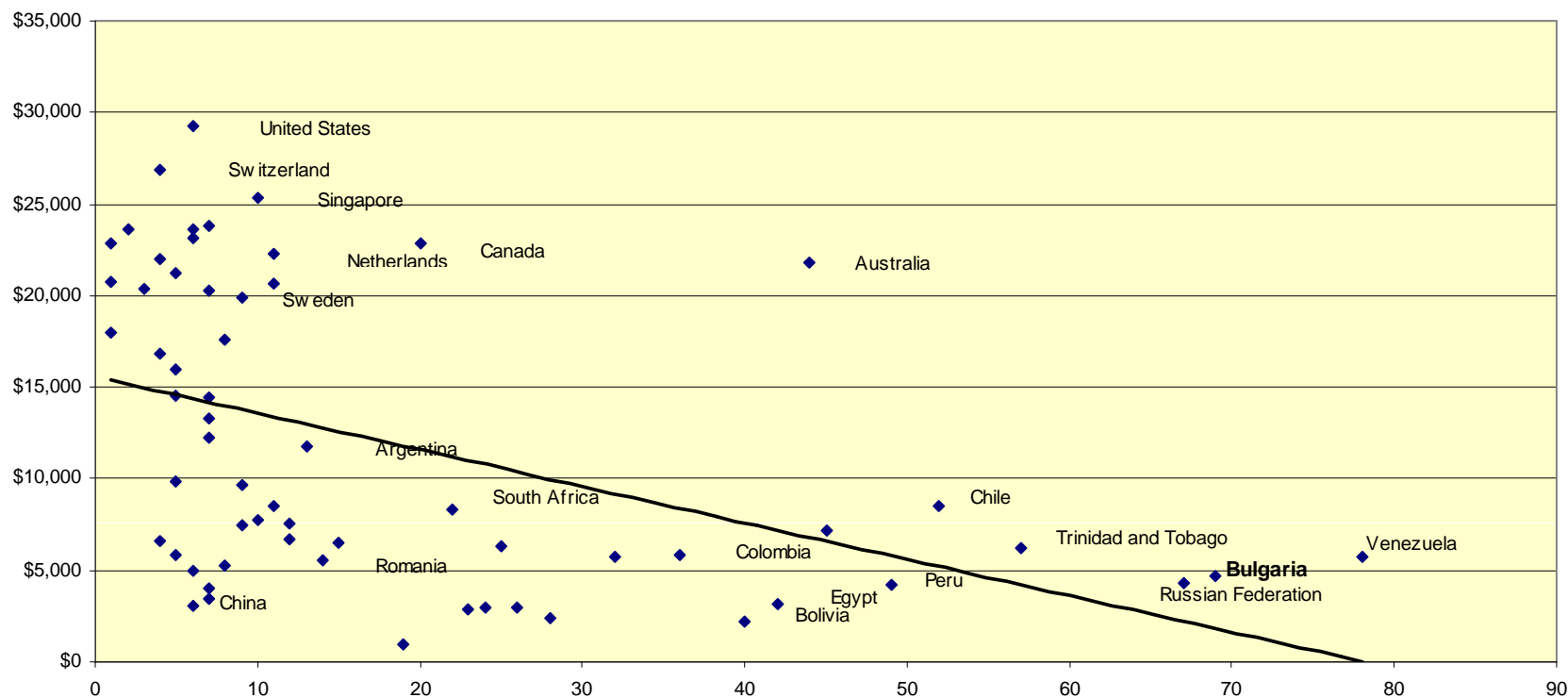


*What is
Competitiveness?*



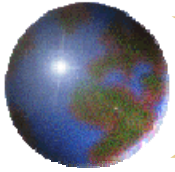
Dependency on Natural Resources and GNP Per Capita

Percentage of Exports in Natural Resources and GNP Per Capita in 1998



Percentage of exports in raw materials calculated as the percentage of merchandise exports in agricultural raw materials, metals and ores, and fuels.

Source: World Development Report 2000.

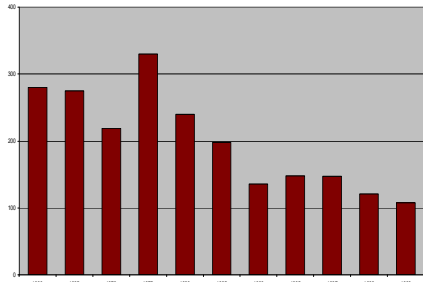


Selected Global Commodity Prices

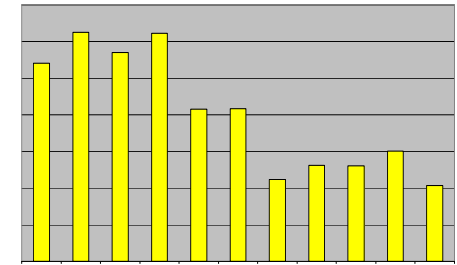
1960-1999 (1990=100)

Source: World Bank Development Indicators

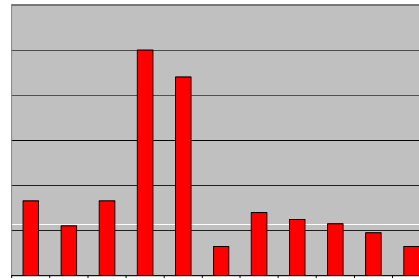
Wheat



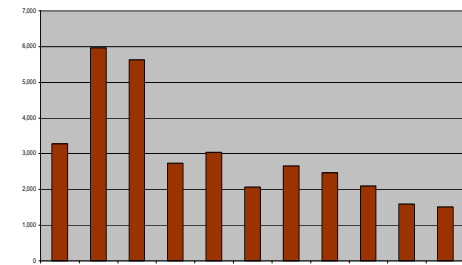
Soybean Oil



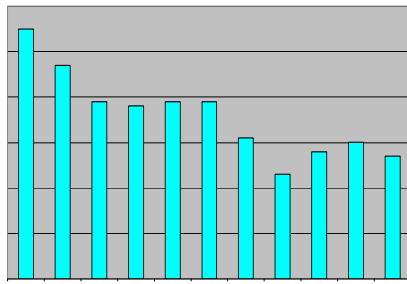
Sugar



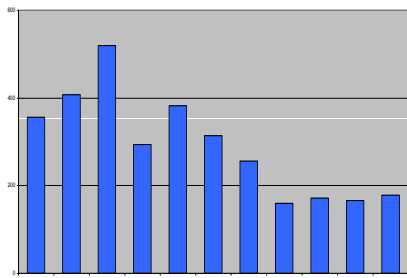
Copper



Iron



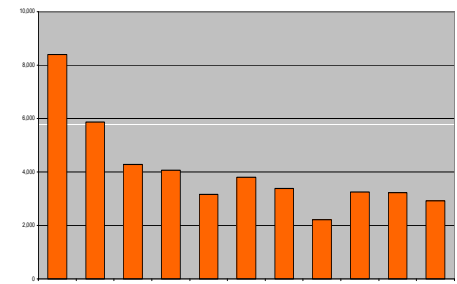
Beef

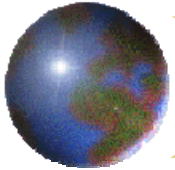


Downward Trend in Commodities Prices

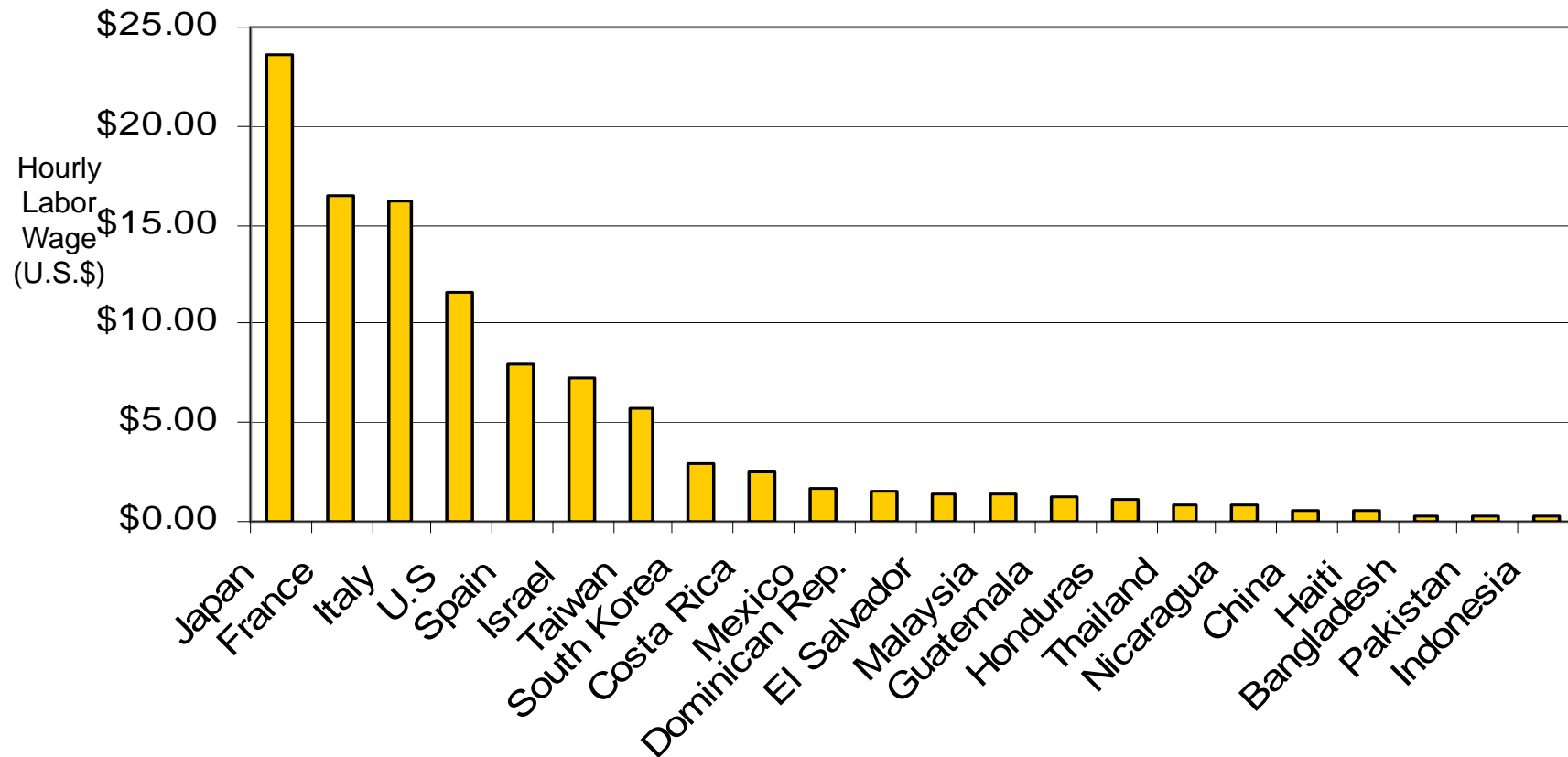


Tobacco



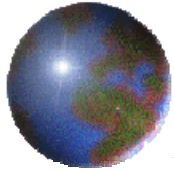


Textile Industry Wages



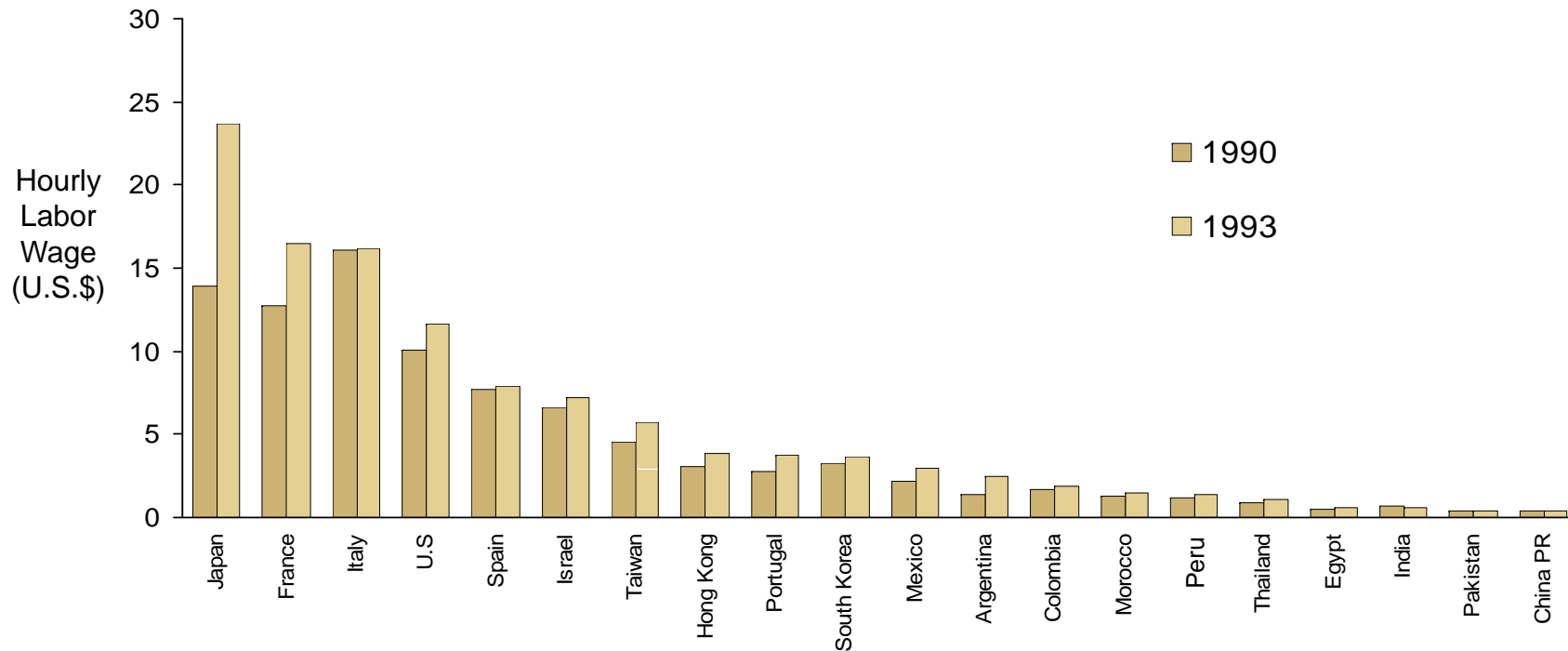
Low cost strategies based on low cost wages provide an unstable competitive advantage

SOURCE: Bobbin Magazine 1999 averages, developed countries statistics are from Gherzi Textile Organization



Dangers of Factor Driven Strategies Wage Growth

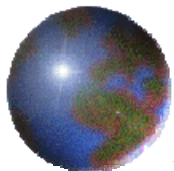
Textile Industry Wages



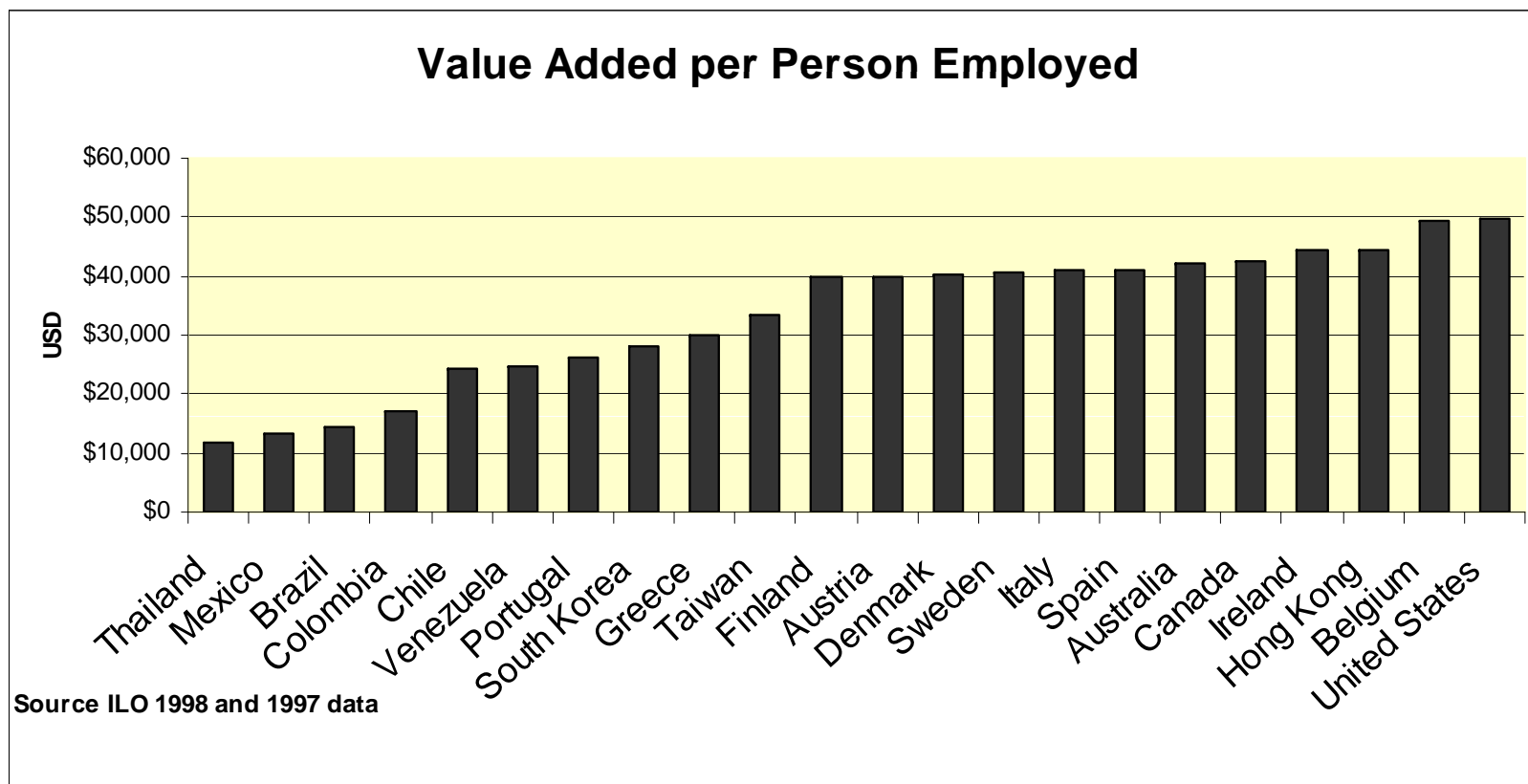
CAGR 1980-93	19.2%	8.9%	0.1%	5.0%	0.9%	2.9%	8.1%	8.0%	10.4%	4.3%	9.8%	20.2%	2.6%	4.7%	5.1%	4.1%	8.2%	-8.0%	4.1%	-0.9%
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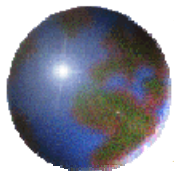


Low cost strategies based on low cost wages provide an unstable competitive advantage

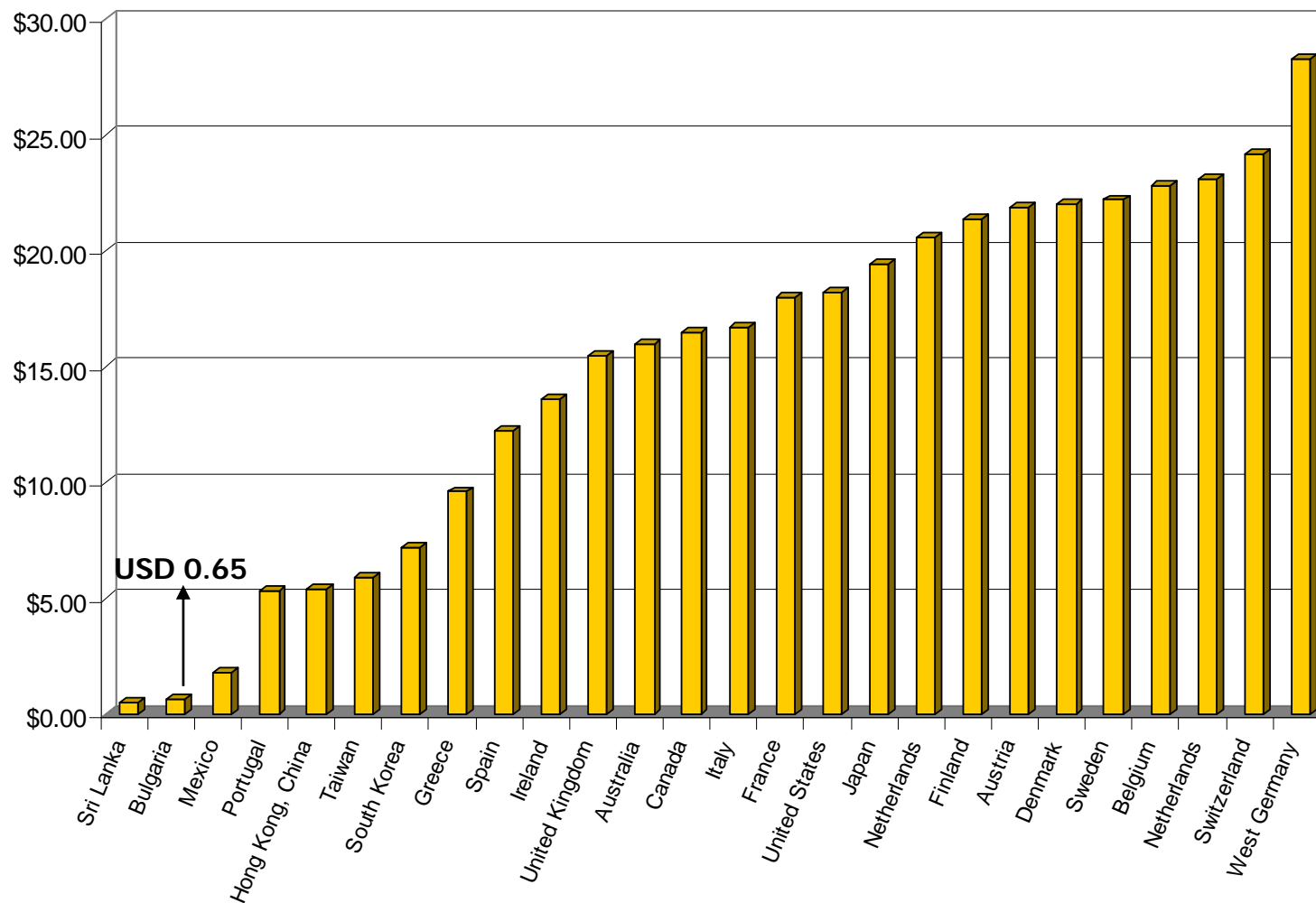


The Productivity of Labor

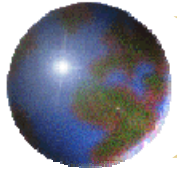




Hourly Compensation (USD)



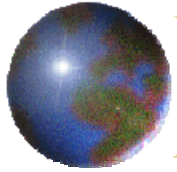
Source: ILO, Bulgaria estimate based on the Economist Intelligence Unit



The Tourism Trap

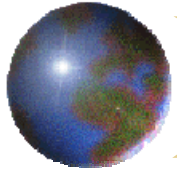
- **Dependency on Charter Operators**
- **Struggle to Manage Image**
- **Failure to Capture High Value**
- **Easily Replicable Strategy**
- **Low Wage Rates Persist**





Competitiveness is NOT...

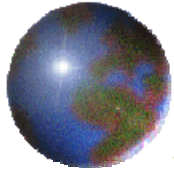
- Abundant Natural Resources
- Cheap Labor
- Cheaper Currency
- Better Government “Incentives”



Definition of Competitiveness

Sustainable Growth in Productivity Driven by:

- Quality of business strategy and operations
which is affected by:
 - Macroeconomic environment
 - Microeconomic environment

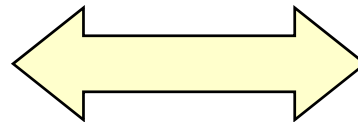


The New Competitiveness Paradigm

Source: Michael Porter, 1998

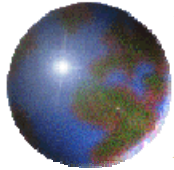
Political, Legal, and Macroeconomic Context

**Sophistication
of Company
Operations and
Strategy**



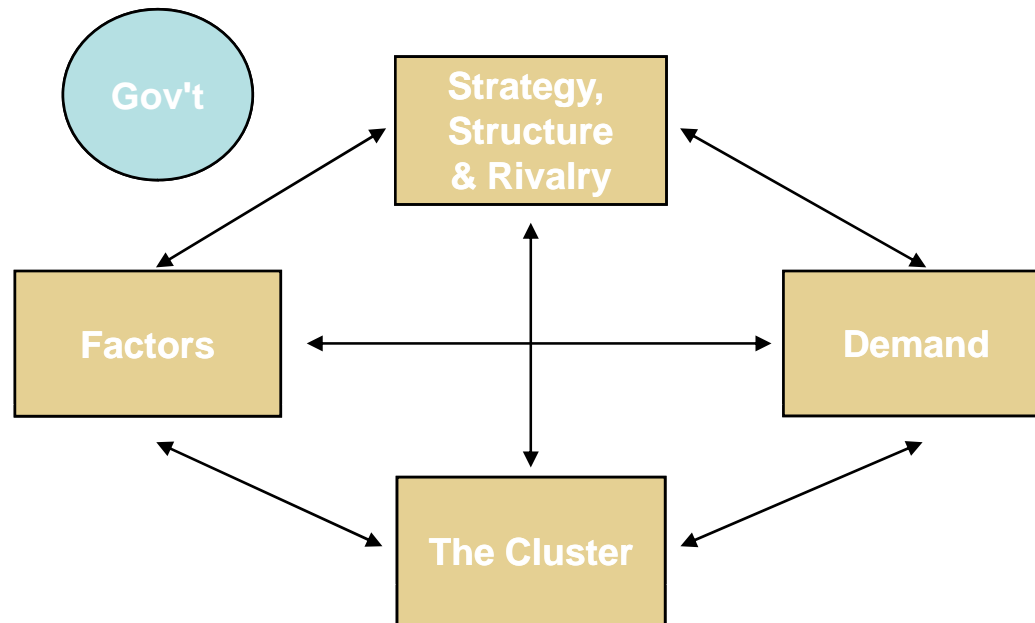
**Quality of the
Microeconomic
Business
Environment**

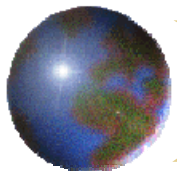
Microeconomic Foundations



The Competitive Diamond

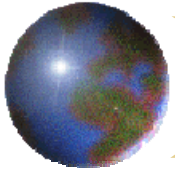
Source: Michael Porter





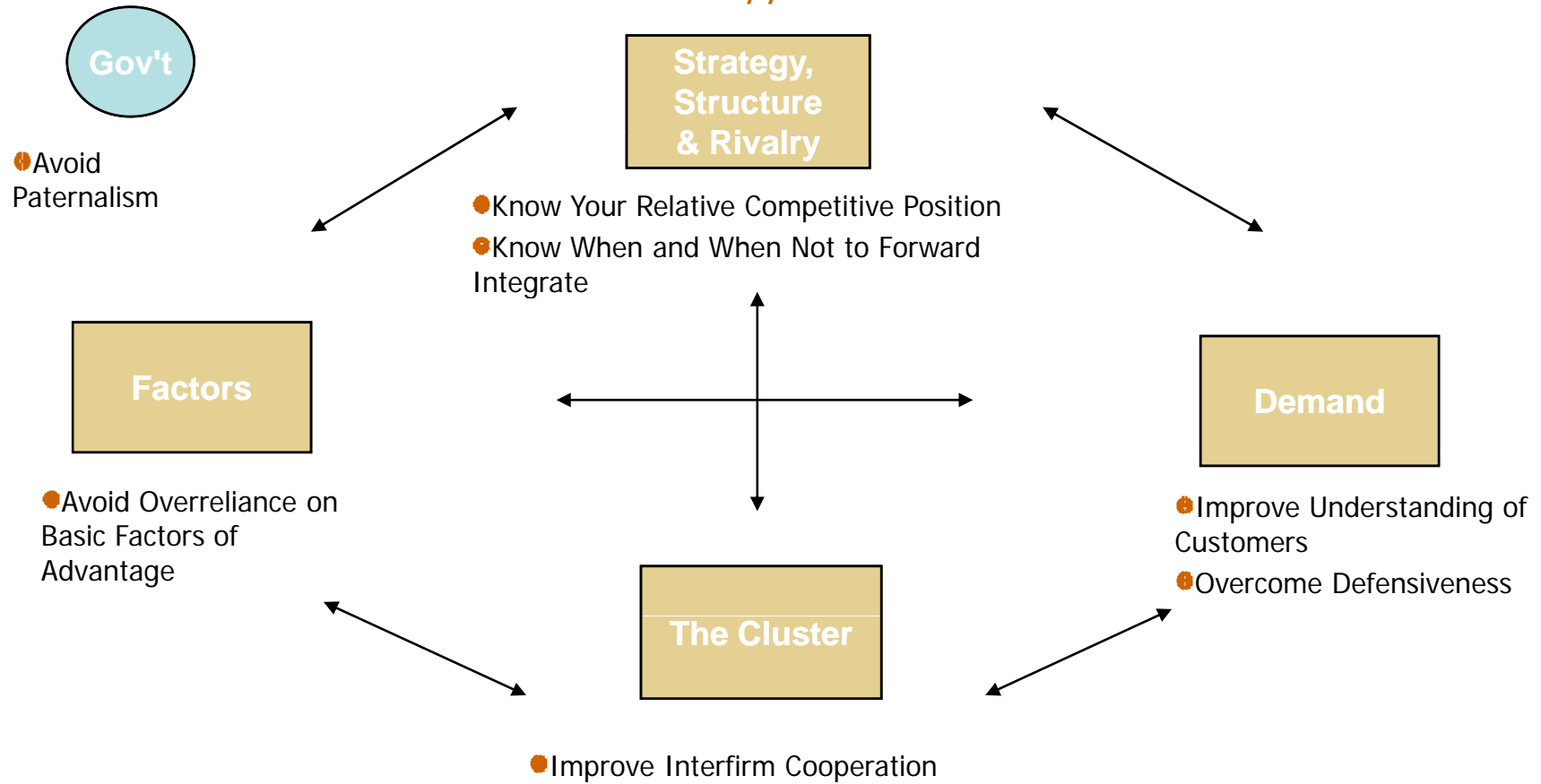
Fairbanks' 7 Opportunities

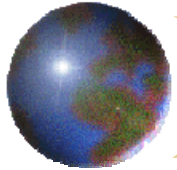
- 1. Improve Customer Learning**
- 2. Explore Forward Integration**
- 3. Innovate**
- 4. Cooperate with Cluster**
- 5. Understand Competitive Position**
- 6. Avoid Over-Reliance-Basic Factors**
- 7. Avoid Government Paternalism**



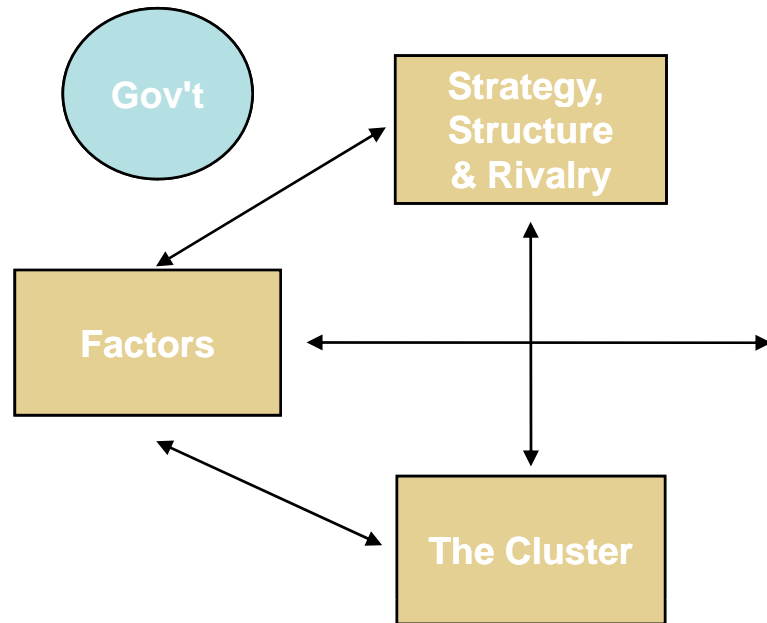
The Competitive Diamond

Fairbanks' Opportunities



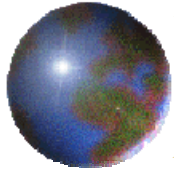


DEMAND



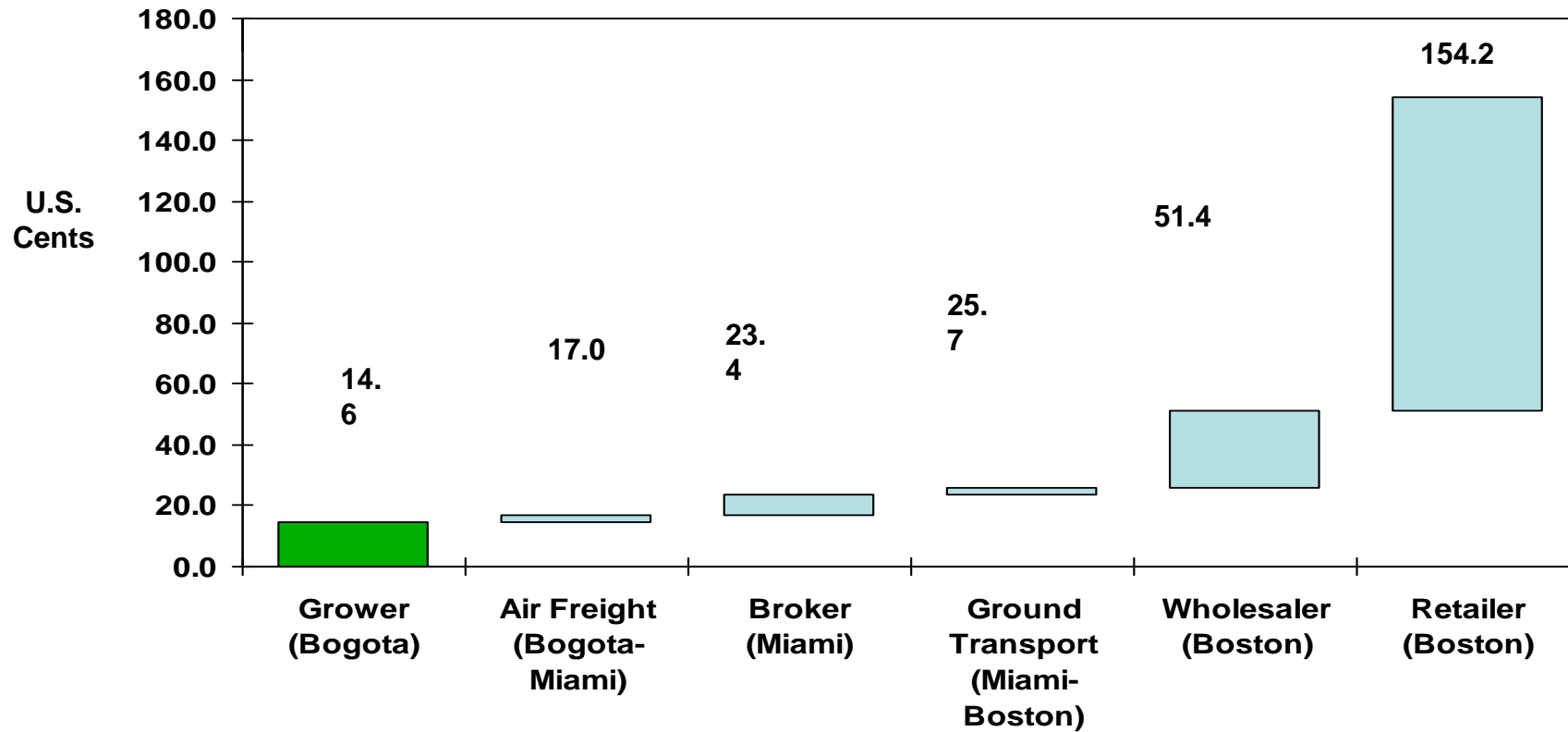
- Direct Contact with sophisticated and demanding consumers
- Size and segmentation of local demand
- Number of independent buyers
- The speed of growth
- How fast the home market gets saturated
- Internet savvy customers
- Mobile local buyers
- Ability to monitor and respond to trends

Examples: Italian Shoes, Israeli Fish, Southern Rainbow

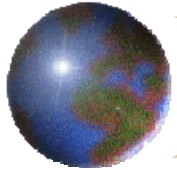


Exploring Forward Integration: Example: Cut Flower Value System

Net Revenue Per Rose Stem for Each Component of Value System



Source: Monitor Company, based on Interviews in Mexico, Colombia, Miami, Boston, Monitor Analysis



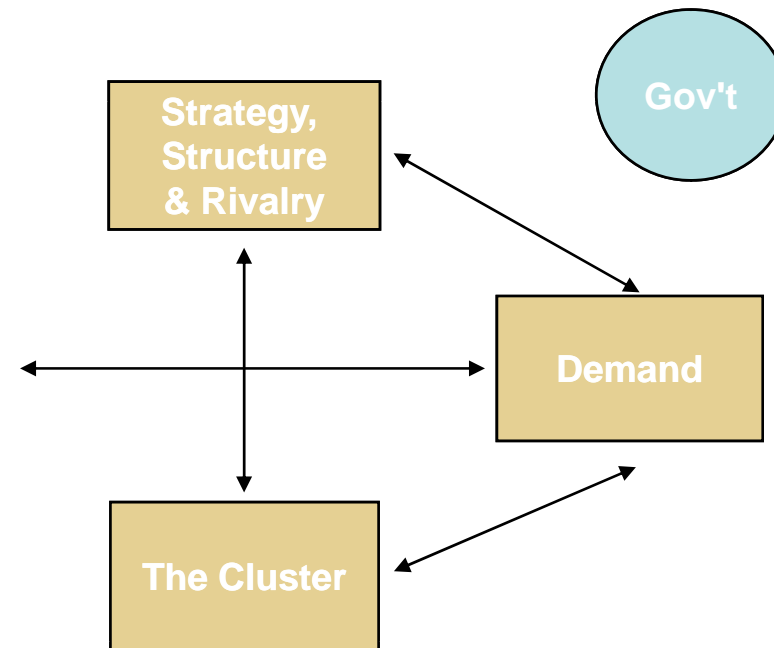
FACTORS

• BASIC

- Climate
- Fertile Land
- Location Proximity
- Availability of basic inputs
- Stable and healthy ecological conditions
- Labor Force

• ADVANCED

- Knowledge resources
- Access to capital resources
- Infrastructure: availability of ports
- Research capability
- Tele-density
- Management and Technology



Examples: Honduran Textiles, DR Tourism, Sri Lanka Gems