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in the
REGIONAL CONTEXT

(SCENARIO ANALYSIS)

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PART ONE: INTRODUCTION

1.1 Subject Matter and Structure.

In terms of both its intentions and genre *Bulgaria: Risks of the Political Future* is an **early warning paper**. The report is divided into four parts.

This part defines the main concepts on which the entire analysis is based. It also introduces, and gives a preliminary specification of, “Bulgaria’s case” against the background of the accepted conceptual framework.

Part two presents an analysis of the basic characteristics of Bulgaria’s political system. Besides its descriptive aspect, it also contains an evaluation of the major risks faced by the political system.

Part three explores basic features of the current state of Bulgaria’s economy. It contains an evaluation of those critical points of the present context which are most likely to influence the future of the socio-political system.

Part four deals with possible, thinkable, or imaginary, as it were, developments. It considers five scenarios for Bulgaria’s political future for the next ten to fifteen years. All of them are failure scenarios. Besides unfolding them as possible borderline developments, this part advances probability assessment for each of them. There is no proposal for a specific positive scenario. Thus, a positive development would be the hopeful result of heeding recommendations for avoiding the risks for any of the five scenarios.

1.2 Conceptual Apparatus. Definitions.

There are three concepts which are central to this paper: “weak state”, “risky country (region)”, “human insecurity”. The entire analysis that follows is based on them. A proper understanding of its essence depends to a great extent on the understanding of these conceptual tools.

(a) “Weak state”

We understand a **“weak state” to be one where the legitimately elected government experiences increasing difficulty to exercise its executive functions and implement its policy projects**. It is specific for the “weak state” that it does not imply a legitimation crisis that could be resolved simply through carrying out early elections. The true problem is that it suffers from a deficit of political and governmental alternatives. Thus the “weak state” is not involved in a governmental crisis. It is rather involved in a crisis of governmentality. In the public realm there is no candidate that could gain political recognition, hence legitimacy, and in effect take over the functions of the executive. So, a “state” becomes “weak” when the surface-level governmental or parliamentary crisis is rooted in an overall inability to govern, and not in conflicting power claims from rival political subjects.¹

Let us take an example². Before 1980s drug trafficking was neither a major factor in Colombia’s economy nor considered a significant threat to the state. At the time it started emerging, it was even accepted by the government as it provided jobs and its product was exported to the U.S. In the 80s this crime activity began to bother it because of its increasing influence on state institutions, the pressure from the U.S., etc. The government decided to sign and implement an extradition treaty with the U.S. which would target major drug dealers and expand the campaign against the drug cartels. The latter responded by a massive wave of intimidation and open violence and, even more, by the proposal to pay the country’s entire foreign debt provided the government would repeal the treaty. Under this enormous pressure, which showed how powerful the drug cartels had become, the Supreme Court overruled the extradition

¹ It would be helpful to clarify in advance an aspect of the method adopted, which concerns the way of introducing the basic concepts:

All three definitions are “negative”. They are not derived from a “positive” understanding by way of negation; we are only interested in what “weak state” means and ignore the question of what a “strong state” might mean in general. This feature has to do with the character of the entire work and with the objective to suggest preventive policy recommendations, which are negative, too, as they are directed toward avoiding some developments.

² All examples we give to illuminate the main definitions are taken as real boundary cases. We do not think such unambiguous cases could easily be found in Bulgaria’s recent history, so, for the sake of clarity we refer to internationally well known developments.

treaty. The explicit reason for this decision was based on an insignificant detail and, apparently, was highly controversial. It was obvious that one of the basic state institutions, the Supreme Court, acted in blatant contradiction with a national interest, which was clearly defined and hardly disputable. Under pressure from the crime network the frightened Court became an obstacle to the government's attempt to solve a problem of national priority. This is a clear case of a "weak state".

(b) "Risky country" (respectively "region")

We use the expression "risky country", or "region" in a broad yet conceptually strict, that is, not figurative, manner. In our understanding **a "country" can be characterized as "risky" if crises of various kinds - such as economic, socio-cultural, ethnic, political, institutional, and others - extend their influence to affect the very societal infrastructure.** Such a development produces a secondary expansion of the crises along various dimensions. If a certain type of crisis cannot be resolved by available resources and continues to deepen and intensify, it cannot be contained within the limits of its origin. Instead, it transcends its original scope thus touching upon structures which are common for other sectors of social life. The possibility for such crisis expansion, that is, from one or more specific fragments of social life toward its very infrastructure and after that into various other substructures - renders countries and whole regions as risky. In and of itself, none of the individual components of social life - such as ethnic conflict, sporadic violence, institutional weakness, etc. - renders a country risky, until the internal crisis spreads over society's infrastructural level.

Let us illuminate this definition by an example. Albania was widely conceived as a country with good prospects for socio-political transformation and integration into the international community. Foreign observers failed to consider the phenomenon of the notorious financial pyramids as a major factor in this process. Contained in certain frames, such financial schemes exist elsewhere in the world including countries like the U.S. and Switzerland. Surprisingly, however, it was the pyramids that became the major visible cause for destruction and disappearance of the network of state institutions in Albania and for the complete disintegration of the social infrastructure. Once this boundary is crossed, the collapse of these criminal entities as the pyramids lead to massive robbery of arms warehouses, to formation of territorial communal enclaves, to blockage of supply, transportation, communication, etc. Albania thus became an extreme case of "risky country".

(c) "Human insecurity"

Using the term "human insecurity" we do not mean to introduce a new concept but rather to give an extended interpretation of the security problematique. The extended view of security is in accordance with our understanding that today's sources of risk cannot be reliably defined if we confine our observation to the political unity of the nation and to the institutions whereby it organizes itself into a state.³

The conceptual content of **the term "human insecurity" should be understood as a change in perspective from the pole of the state toward the pole of the individual.** We do not take, however, these poles as isolated notions. In between the two extremes we also include, explicitly or not, some intermediary entities such as families, groups of individuals, communities of various kinds. In this sense we assume the reference point of the individual as a borderline case. Or, throughout our work, we are interested in the state of the individual while at the same time aware of and attempt to account for the fact that every individual is a crosspoint of a manifold of community or group relations. Thus, whenever some community risk arises, it extends to the individual. Conversely, if a certain critical mass of communal relations is secure, this state of security also reaches out to the individual members.

Let us take a third example. Understandably, during the Cold War bi-polar system of security the (referent) object of security policy was the state. Citizens and various communities could feel secure because the state had taken on most of the functions for providing security. As a supplier of security the state was defined territorially, it was constituted as a sovereign, cohesive, political unity of the nation. In the field of foreign policy its primary task was to protect itself against other such political units, and it also had monopoly over the internal use of violence. When U.S. troops and international forces entered Somalia, this object, the state, appeared to be

³ This extended interpretation of security has been widely discussed for the last ten years, especially after the collapse of the bipolar system of security. In the theory and the practice of the UN they were first introduced in 1994 in the framework of the United Nations Development Program. See *Human Development Report, 1994*. (New York: Oxford University Press, 1994), pp. 22-40.

tremendously ambiguous.⁴ Much to the surprise of policy strategists, the Somali state had not only been destroyed but, even more, it was impossible to revive. It turned out impossible to provide assistance to restore the disintegrated nation-state institutions as there was no nation "out there". Neither were there resources for any kind of national identity which could become a base for state formation. Quite to the contrary, the intention to bring order by establishing centralized state government was perceived by the local agents, the "clans", as a threat and was strongly opposed by them. Under such conditions the U.S. and the UN contingents were soon acting as if they were one clan among others. Thus, the referent object of security policy appeared to be misperceived. This rendered the entire operation highly questionable. The inference one could easily draw from this development is that the security of individuals and groups inhabiting this region did not necessarily depend on a state-centered security policy. Under such circumstances the security of individuals must become the immediate object of security policy. Hence the need for political strategists to introduce the concept of human (in)security as primary object of security policy, and only afterwards to consider whether human security could be provided by relying on conditions that hold for nation-states.

1.3 Structural Unity of the Conceptual Apparatus

The axiomatic part of the conceptual apparatus does not imply the intention to construct complete, let alone systematic, picture of Bulgaria's socio-political future. The proposed analysis is only about possible developments. It neither aims at making prognoses nor at advancing predictions. The lack of such systematic, or holistic, intentions notwithstanding, the main conceptual instruments are interrelated in a specific way. They describe stages of crisis expansion in view of the problem of security.

If a state experiences weakness and growing inability to perform its ordinary functions, this also implies a growing distance between the state and various sectors of society's life. If this crisis deepens, the state may lose control over spheres where its intervention, or preventive function, is of crucial importance. In this condition some agents that operate in the social realm but have subversive intentions and character may become as powerful as to replace the state. In such a case the "weak state" syndrome facilitates, or even directly produces, developments in the social sphere such that the country, or the region, may qualify as risky.

Organized crime is a typical example. If the state cannot exercise control over crime and contain it within reasonable limits and degree, the probability for crime activities to be organized grows significantly. If this process continues, organized crime may expand its activities beyond spheres where it usually operates. Further, it may penetrate different sectors of social interaction and impose its own rules therein. An extreme development at this stage would be for organized crime to duplicate, or totally replace, the function of the state. Given the character and purposes of organized criminal activities the third stage of this development would be to cause disintegration of the social infrastructure and create a state of overall insecurity, human insecurity at that.

This imaginary development shows how the three concepts we introduce relate to each other. They present degrees of aggravation of a situation whereby the weakness of the state may transform a country or region into risky zones and, finally, create conditions for growing human insecurity.

1.4 Introducing Bulgaria's Case

We take Bulgaria to be neither a "weak state" nor a "risky country (region)" *per se*. But we believe we do have reasons to take Bulgaria as a country where symptoms of both can easily be registered. Whether Bulgaria would allow these symptoms to extend their gravity and lead the country toward some of the extreme cases mentioned above is a question we are attempting to answer both in the analytic part of the paper and in the part where we propose the worse possible scenarios.

Let us take an example again. From 1990 till 1997 each and every Bulgarian government knew perfectly well that in the process of transforming the banking system - from one central bank with various specialized branches into a central bank and independent commercial banks - strong control should be exercised over the newly emerging commercial banks. Largely, the success of the government policy depended on effective enforcement of financial discipline. Nevertheless, none of the governments in this period succeeded to implement efficient policies

⁴ In respect to this example we are more interested in the attitude of the international strategists and the implicit view of the object of security policy which was at work in the entire operation. This view reflected the inertia of the Cold War concept of security as state-centered. By and of itself, the case of Somalia requires a special analysis and is not of interest here.

to prevent Bulgaria from verging on a complete collapse of the banking system. The fact that six successive governments could not handle the banking situation means that there is a recurrent, systematic inability involved in this aspect of policy making. Thus one has sufficient ground to characterize this development as crisis of governance instead of a crisis of this or that separate government. A side effect of this weakness was the fact that none of the governments enjoyed credibility before the international financial institutions as none of them could guarantee implementation of signed agreements. This situation reveals symptoms of a "weak state".

Let us develop the example a little bit further. In the period 1990-1995 certain circles set up new banks by using political leverage and exercising pressure on the National Bank to grant them licenses. Thereafter, some used the resources of the newly established banks for registering insurance companies. Some insurance companies "attracted" their clients by racketeering them. In this way, otherwise dispersed racketeering activities were organized and consolidated. In effect, several powerful crime networks emerged. They had political connections, legitimate presence in the financial system, were able to participate in the privatization process, and could easily penetrate small businesses affecting them in the way they would like to, etc. This example shows how the state weakness can result in a "risky country (region)". It is a story about the symptom of "risky country".

Now, let us take a look backward and define in a more precise manner, and against the background of this preparatory work, how we view Bulgaria's case.

First, the conceptual apparatus provides information on what *ideal types of developments and cases* we are interested in; that is to say, it specifies parameters along which we are to unfold our analytic observation and, afterwards, construct possible scenarios.

Second, we presented a number of examples aimed at elucidating the conceptual background through *really existing extreme developments and cases* which fall in the realm determined by our conceptual framework.

Third, we assume that Bulgaria has not reached such a borderline state. At the same time, we raise the claim that it exhibits a number of *symptoms* that can be analyzed in terms of our central concepts of "weak state" and "risky country (region)".

Thus we take Bulgaria's case as one that *does not exclude in advance* this country's possible transformation into a boundary state of crisis, chaos, disintegration, collapse, etc. From this point of view it is necessary to introduce a distinction which plays an important role in our analytic strategy:

It is one consideration what, under the circumstances, is *possible* to occur.

And, it is quite another what is *probable*.

Strictly speaking, the scenario approach relates more to what is possible, that is, not excluded, whereas risk assessment relates more to the probability of various bad scenarios to develop. By assessing the risk we refer to different factors which contribute to increasing or reducing it. So, this assessment entails inevitably recommendations concerning preventive policy.

It follows that the assumed understanding of security, besides being extended to individuals and communities, is based on the idea of prevention and exclusion. We do not advance recommendations that this or that policy be followed in order for something specific to be achieved. Rather, we give recommendations that this or that policy be followed in order for the worst possible scenarios to be avoided. To sum up, *we are recommending policies that will make some possible developments less probable*.

PART TWO:
BULGARIA'S POLITICAL ENVIRONMENT

Introduction

The events in 1997 revealed the factors which will determine the prospects for Bulgaria's social, political and economic development in the next ten to fifteen years. The political and economic crisis which shook the country in the winter of 1996 was indicative of the essential characteristics of the political and economic system of Bulgaria. A discussion of future political risks should begin with an assessment of institutional stability. An assessment of the role of the Constitution, the party system, trade unions, the media, and political elite, as well as the role of the army, will outline the institutional environment for Bulgaria's political future. The major issues discussed in this chapter are as follows:

- Political institutions in Bulgaria.
- Their roles since 1991.
- Institutional changes which can be expected..

The expected changes will be discussed in terms of their effect on the level of country risk.

2.1 Political System. General Characteristics

The present political system emerged as a result of the "negotiated transition", which started with the Round Table Talks in February-March 1990, the adoption of the new Constitution (July 12, 1991), and a series of elections and governments. The Constitution established a parliamentary form of government, with a directly elected President, and a Constitutional Court to oversee Parliament's compliance with the Constitution. The electoral system is proportional, with a four-percent threshold for Parliamentary representation. The political system in Bulgaria over the past seven years has demonstrated sustainable elements. Its key features will continue to determine the sustainability of the system over the next ten to fifteen years. The present analysis will focus on these features.

2.2 Elections

Bulgaria is the only country in South-Eastern Europe with an established practice of free *and fair* elections. Since 1991, the electoral system has remained unchanged. All electoral results were accepted by participating parties and international observers. Both incumbents and the opposition received approximately equal media coverage in the state media, and the fact that the opposition won the elections in 1991, 1994 and 1997 should corroborate the point that Bulgaria is an exception to the "Balkan tradition" of contested and predetermined elections⁵. Turnout has been relatively high (averaging about 70%). The trend, however, is for turnout to decline. As a rule, Bulgarians are more active in national elections (parliamentary, presidential) than in local elections (see Appendix One, Bulgarskite Izbori 1990-1996).

Currently, elections are the most stable, as well as the most stabilising, institution of Bulgarian democracy. Despite doubts as to the general performance of democratic governments, public opinion is not ready to question free elections. (Gallup Annual Reports)

In the short run, the electoral system will be subject to debate. Starting with 1994, there has been permanent pressure for a shift from the proportional representation (PR) system to majoritarian representation. The major arguments against the existing PR system are (1) the selection process of future MPs is confined to the respective party leadership circles (2) MPs are loyal to their parties and not to voters (3) all politics is national and local problems are ignored (4) the PR system often results in fragmented Parliaments and minority governments. Public criticism against the PR representation reflects a more general public disappointment with the failure of three successive Parliaments to perform efficiently. The inefficiency of Parliament has been blamed on the electoral system. This is the reason to expect that a successful performance of the present Parliament and the government it has elected will reduce public pressure for changes in the electoral system.

In the short run, there is one major factor diminishing the probability of a radical change of the electoral system. A majoritarian system will limit the power of party leadership, and under the current system, it is the party leadership that has the mandate to initiate these changes.

⁵ The disputed elections in Albania and Slobodan Milosevic's manipulation of the 1996 local election results are the best illustration of this "Balkan tradition".

In order to promote changes in the electoral law, either the parliamentary majority must feel threatened by the existing PR system, or public pressure must escalate to a level that would make it impossible for the parliamentary majority to ignore it.

In the next three to five years, the probability of any change in the electoral system will depend on the stability of the present Parliament.

Policy Issues

If the present Parliament fails to deliver and new elections are scheduled before the end of 1998, changes in the electoral system are highly probable. The choice of electoral system will be of key importance. The adoption of a mixed system, a combination of majoritarian and proportional elements, will consolidate the democratic system. The adoption of the first-past-the-post system would create an opportunity for parliamentary underrepresentation of significant social segments and reduce the consensual character of the regime.

If the present Parliament succeeds in fulfilling its term, the electoral system is not likely to change. Avenues to improve political representation will be sought in the parties' legislative recruitment mechanisms.

The model of primary vote for the selection of Presidential candidates, already launched by UDF, will most likely be preserved. The other parties will be under pressure to adopt more transparent procedures for candidate selection.

2.3 The Constitution

The Constitution, quite predictably contested in the beginning, has also proved to be a stabilizing factor in political life. Bulgaria was the first post-communist country to adopt an entirely new Constitution. Since 1991, the Constitution has been the target of public criticism on several accounts, but has emerged as an effective guarantee of the predictability of political life. The Constitution was a key factor which helped avoid undesirable political developments during the winter crisis of 1996-1997. All major political parties have repeatedly declared their loyalty to the existing Basic Law.

In the near term, the debate on the Constitution will revolve around two major issues, empowering the President and whether to grant land purchasing rights to foreign physical and juridical persons. The very complex procedure for constitutional amendments is the major constraint to the designed amendments⁶.

The fact that UDF withdrew all constitutional amendments from its 1997 legislative agenda indicates that the ruling majority does not command a stable support on constitutional issues. The dynamics of political life in Bulgaria suggests that it is more probable for UDF to withdraw their constitutional initiative altogether.

Policy Issues

1. The debated Constitutional amendment allowing foreign physical and juridical persons in Bulgaria to buy land will send a strong message to foreign investors. The adoption of this amendment will reassure investors of a commitment for radical change in this country's investment climate. This message is very needed because political instability and institutional xenophobia are among the investors' major concerns. Moreover, the adoption of such an amendment will be a move towards the harmonization of Bulgarian legislation to conform to EU legal standards.

We must note that this measure could be misused for partisan purposes. Polling figures indicate that a majority of the population fears "relinquishing land" to foreigners. Hence, the need for an aggressive public campaign to ensure that this initiative of the parliamentary majority will not backfire. In all probability, the government will not risk sponsoring this amendment before securing a reliable public endorsement.

2. Empowering the President has been a permanent issue in the center of the political debate. Disappointment with Parliament⁷ moved public opinion to the idea of presidentialism. Former President Zhelev is among the most outspoken supporters of the presidential form of government. The incredible popularity of the present President Stoyanov (whose approval rating is above eighty percent) is also a factor for the constitutional change.

⁶ The Constitution can be amended with the votes of 3/4 of all MPs, or with the votes of 2/3 of all MPs, if the votes are cast twice within three months. Fundamental provisions in the Constitution may be amended solely by a Constituent Assembly.

⁷ Parliament's approval reached an all-time low of seven percent in February 1997.

(a) *Presidential legislative initiative. If the President is given legislative initiative, his draft laws can be defeated in Parliament, and in reality the President will be weakened.*

(b) *Referendum power. The proposal to give the President (exclusive!) right to call national referenda is controversial as well. The political experience in countries like Belarus and Kazakhstan suggests that instruments of direct democracy (especially national referenda) can subvert democracy and stability.*

Amendments affecting the division of power between institutions are more likely to destabilize, rather than consolidate, the political system. Proposals for constitutional empowerment of the President will most likely face opposition from non-ruling parties in Parliament, despite strong public support for this change.

2.4 Party System

During the Second Republic (after 1991), a bipolar multiparty system was adopted. More than 200 parties have been registered since 1989 - only 50 members are required for formal registration. However, only two parties (or election coalitions) have won elections during the period in question: the Union of Democratic Forces, or UDF (the biggest right-centrist party) - in 1991 and 1997, and the Bulgarian Socialist Party, or BSP (the former communist party) - in 1990 and 1994. Besides these two, no more than two or three parties or coalitions have entered Parliament at any time.

The crisis in the beginning of 1997 which divested BSP of executive power and opened the space for the left-and-right of center parties put under question the stability of the bipolar model. The major factors eroding the stability of the bipolar system are (1) the decline of support for BSP and especially the fact that the socialists' electoral base is much older than the voters of the other major parties (Bulgarskite izbori) (2) the emergence of a modernized Left (the European Left Party).

An analysis of the dynamics of public attitudes assumes that the bipolar character of the party system will remain unchanged. The decline of BSP is not accompanied by a significant shift in the support of the center-left parties. BSP has retained its position as the major opposition party. UDF and BSP (or coalitions dominated by them) will remain major political forces (See Appendix Two, Bulgarian Parties). We can expect that UDF and BSP will develop as center-right and center-left populist parties, respectively, with UDF retaining a leading role in the near future.

One of the specificities of the party system in Bulgaria is the parliamentary representation of the Movement for Rights and Freedoms, or MRF, the political party of ethnic Turks in Bulgaria⁸. The Constitution bans the formation of ethnically-based parties, while the previously adopted electoral law had made the registration of MRF legal. The Constitutional Court made the historic compromise to pronounce MRF legal. Since, political life has proved the extreme value of the MRF as a political and social stabilizer through the influence it exercises over the majority, over the Turkish and Muslim minority, and also over minorities that have not been able to produce viable political organizations and gain representation, such as the Gypsies of Bulgaria. In the course of the next 10 to 15 years, the Bulgarian Turks will retain their electoral importance. However, the chances for effective independent participation of MRF in the elections will diminish with time. The major reasons for the diminishing role of MRF as an independent player are the economic emigration and the decline in the electoral turnout of the Bulgarian Turks, as well as the emergence of powerful MRF splinter groups, now within the United Democratic Forces, which are felt to better represent the interests of traditional MRF voters.

Policy Issues

The parliamentary representation of the Bulgarian Turks is a factor for the country's political stability. The isolation of the MRF can result in the emergence of radical minority parties. The strategy for complete integration of the Turkish voters into major national parties can increase the risk of regional instability.

2.5 Political Elite

In the course of the last seven years the public witnessed three waves of re-alignment of the political elite. The first, in 1990-1991, marked the dissidents' entrance into political life and the removal of Zhivkov's circle. The second, 1991-1996, opened the political space for the ideology-driven elite -- radical anti-communists on the right (Philip Dimitrov) and nostalgic hard-liners on the left (Videnov). The third wave starting with the elections in April 1997 can be labeled

⁸ In the last national census (December 1992), the Turkish minority in Bulgaria constituted 9.41% of the population.

“pragmatic”. Gradually, all political parties have eliminated “the old” (i. e. older than 60) and political life is dominated by the 40-55 year-olds who have made their political careers during the last seven years. The leading figures of the old communist *nomenclatura* were “sent into retirement”, along with the leading anti-communist dissidents. The freshman class of MPs constitutes 2/3 of Parliament. Having been thus formed, the present political elite will play a crucial role during the next 10 to 15 years. Some arguments for the stability of the present political elite are: its local power base, its pragmatic profile, and the general trends which can be observed in the other post-communist countries. It can be presumed that President Stoyanov, UDF leader Kostov, and the leader of the European Left Tomov will retain their positions in the near future. Stoyanov’s term ends in the year 2000, so he will be the major political player at least in the short-run. The President’s high popularity, and the support of UDF he enjoys makes his re-election to a second presidential term highly probable. Kostov and Tomov enjoy full uncontested control over their parties which is a strong argument for long political careers.

The Bulgarian political elite is fraught with corruption and political clientelism, but lacks the nepotism for which this part of Europe used to be renowned. The business and cultural elites are underinstitutionalized.

2.6. Trade Unions

Trade unions were very active in Bulgaria’s political life in 1990 to 1992. They were key actors in the 700-plus strikes during this two-year period. The two major trade unions, Podkrepa and The Confederation of the Independent Trade Unions (CITU), were structured following the major political division within society: communists versus anti-communists (CITU -- leftist, Podkrepa -- anti-communist). Following 1992, their political importance has been in decline. Among the reasons for the decline of the trade unions’ political influence are: their failure to adopt strategies compatible with the policies of structural adjustment, their failure to draw a line between political and trade-unionist activism, and the collaboration and “merger” between trade unions and the business elite.

A key feature of the trade-unionist movement is that it covers the state sector of the economy exclusively. In protecting workers’ interests, trade unions are always in confrontation with the state, and are thus pushed to behave either in a corporatist or militant way.

Policy Issues

Over the next ten to fifteen years, Bulgaria’s political system will face the problem of trade unions being too weak, rather than too powerful. Indicative of the trade unions’ loss of power are the decrease in the number of unionized workers, the emergence of new trade unions (Promyana), the concentration of unionized workers in the technologically backward industrial sectors (mining, metal processing), and the reluctance of political parties to work with trade unions. The experience of other post-communist countries⁹ suggests that powerful unions are likely to be a problem, rather than an asset, for reforms.

2.7 Army

The army, which during the 20-s and 30-s of this century repeatedly played a crucial role in Bulgarian politics, has not acted as an independent factor at any time over the past seven years. The political non-participation of the army is a permanent trend which has its reasons in the subordinate role which the army played under the communist system, and the fact that effective civilian control was established shortly after the changes. The conscription basis of the Bulgarian army and the lack of recent war experience are additional factors discouraging active army involvement. And finally, the new geopolitical situation creates an environment which does not tolerate independent participation of the military in political life. It should be noted that the army is in dire need of a comprehensive vision for its new role.

Policy Issues

Two major factors will be key to the reform in the army – defense budget constrains and Bulgaria’s commitment to join NATO. Adjustment to NATO standards will hurt the budget and the economic reforms as a whole. However, in the medium term, any postponement of the reforms will increase the level of political risk.

Bulgaria’s army has an interest to follow the policy of adjusting to NATO standards even if Bulgaria’s membership in the Alliance is problematic. The very process of reforming the army will be the best guarantee for effective civilian control.

⁹ Poland is a case in point.

2.8 Media

The media have largely enjoyed real freedom of expression, which has made them a major player in social and political life over the past 7 years. In 1991, there were 750 registered newspapers in Bulgaria; in 1995 they were 1,058. Compared with Albania or Serbia where newspapers are banned, and with Turkey where more than 40 journalists are in prison, Bulgaria is positively a free speech zone. The fact that there are more than 400 cable channels and 94 licensed private broadcasters is a further argument in support of this observation.

Policy Issues

In the short run, two crucial factors will determine the media environment. The state will continue to lose its monopoly over the electronic media (a couple of private companies are about to receive national TV coverage licenses). On the other hand, one publishing group¹⁰ effectively controls 80% of the newspaper market. Both developments are worrying, as the legal environment for both the public and private electronic media is not regulated. The existence of many unlicensed cable operators can cause a problem in a situation of local conflict. Media outlets can be misused in the absence of effective, and enforceable, regulations. An unsound legal basis, coupled with faulty definitions of professional behavior, undermines media accountability.

2.9 NGO Community

Currently, there are more than 4,500 registered non-governmental organizations (NGOs). Most of these registered NGOs are not functioning. The number of functioning NGOs does not exceed 400-500, and most of them are concentrated in Sofia. The legal basis for the third sector is underdeveloped. The draft law prepared by the NGO community was not included in the 1997 governmental legislative agenda. There are no incentives for companies and individuals to contribute to NGOs. More than 90 percent of all grants and contributions to leading Bulgarian NGOs come from foreign donors. The total dependency on outside funding and lack of active community foundations affects the sustainability of the third sector (sustainability index).

Policy Issues

Given the crisis of the welfare state in Bulgaria, the sustainability of the third sector is of great importance. A network of community foundations and charity organizations can fill the gap following the state's withdrawal from the social sphere. The NGOs' capacity to assume an active role in public life will depend on the following factors:

- (a) effective changes in the legal environment – a new NGO law ought to be adopted.*
- (b) changes in the tax code to create incentives for businesses and individuals to make contributions to the NGO sector.*
- (c) integration of civic groups and policy institutes in the decision-making process.*

2.10 Conclusions

The review of the nature and stability of Bulgaria's political system leads to several conclusions with a view to the country's medium-term development perspectives.

- A series of crises caused the present consolidation of Bulgarian democracy. Therefore, Bulgarian democracy is not growth-dependent. It can be expected that the democratic institutions will service the shock of structural unemployment and cuts in the public spending, which will take place in 1997-1999.
- There is no political party or influential public group which could come up with alternatives to a democratic system or discard democratic rules. All major parties and social groups accept free elections and multiparty system. Military coup is improbable.
- No conditions, internal or external, exist in Bulgaria for the establishment of a stable authoritarian regime. Political stability can be achieved only as a democratic stability. The declared public support for "strong hand" is a reaction to the "weakness" of the state but no agent of authoritarian change is visible.
- The parliamentary presence of the Bulgarian Movement for Rights and Freedoms in two successive parliamentary majorities is a sufficient guarantee against an all-country ethnically driven conflict. The fact that Turks are parliamentary represented reduces the risk for ethnic conflicts.

¹⁰ The German *Westdeutsche Allgemeine Zeitung*.

- At the same time, the political system is state-oriented and is still poisoned with governmental instability (Governments have a high death-rate: the average Bulgarian government after 1990 having ruled for less than a year.). And there are symptoms for the "weakness" of the state. Since 1991 Bulgaria has not fulfilled any of the agreement with IMF.

In the framework of this analysis the major problem of Bulgaria's political system is ***how to ensure that there be at least two reformist governments in succession.***

PART THREE: BULGARIA'S ECONOMIC ENVIRONMENT

Introduction

As of 1997, Bulgaria can serve as the paramount example of a failed economic transition. Economic reforms were introduced in February 1991. Of the following six years only two - 1994 and 1995 - recorded mediocre economic growth, while based on the monthly consumer price indices there was never a twelve-month period in which prices rose less than 26 percent.¹¹ By the end of 1996 the country's real GDP was around two thirds of its 1989 value, the banking sector was experiencing a severe credibility crisis accompanied with bank failures, the Bulgarian currency was in a state of free falling, and prices were rising at a hectic double-digit speed, which in February 1997 reached hyperinflationary proportions.¹² At that moment it became clear to the vast majority of Bulgarians that the only way out of the catastrophe was the implementation of radical and internationally supported reform of the economic system.

In the following months this new attitude resulted in two big changes: elections were held in April, which replaced the old anti-reform parliamentary majority with a new, pro-reform one, and a strict currency board was introduced on July 1, after the necessary legislation was adopted. The result was a quick monetary and fiscal stabilization, and an entirely different outlook for the future of Bulgaria's economy. While many serious risks remain, there is also a definite possibility for an overall favorable development.

3.1 The Financial Sector

The first two months of the currency board regime in Bulgaria can be characterized by a lack of surprises. There has been no pressure on the exchange rate, pegged at 1000 Bulgarian leva per 1 German mark, the base interest rate, determined by the weekly auctions of 3-month T-bills, fell precipitously from around 18 percent monthly in March down to less than 6 percent annually in August¹³, the inflation rate, while a bit higher than expected by the politicians and by the public, is in the single digits monthly¹⁴, and seems to threaten neither the National Bank reserves, nor the execution of the budget. By the end of August 1997, the total assets of the currency board exceed 3.7 billion German marks.

There are, however, many possible risks facing the future of the currency board in Bulgaria. In the short term, the higher inflation of the lev relative to the German mark may lead to a real appreciation of the Bulgarian currency which may damage the balance of payments. At the same time, the combination of high inflation and low interest rates leads to negative real interest rates, which may have two effects: (1) the public will withdraw its support for the lev and cause a re-dollarization of the economy, and (2) the foreign portfolio investors may continue the trend from May and June¹⁵, withdraw their investments and cause a drain of the National Bank's reserves. All this may put a serious strain on the already fragile financial system.

¹¹ The annual real GDP growth, inflation and unemployment are given in the following table (source: NSI):

	1991	1992	1993	1994	1995	1996
Real GDP Growth (%)	-11.7	-7.3	-1.5	+1.8	+2.1	-10.9
Inflation (%)	473.5	79.5	63.9	121.9	32.9	310.8
Unemployment (%)	10.7	15.2	16.4	12.8	11.1	12.5

¹² During the last three months of the Socialist government of Jean Videnov, the inflation rate was 26.9 %, 43.8 %, and 242.7 % for December 1996, January and February 1997 respectively. Source: NSI.

¹³ Source: "Capital" weekly, 1997, various issues.

¹⁴ Cumulative inflation for the period April-July 1997 is 9.6 %, while the cumulative inflation for the preceding 4 months was over 600 % (source: BNB Monthly Information Bulletin, 1997, various issues). In another comparison, in the first two months after the introduction of the currency board in Bulgaria, the monthly inflation rate averages 4.6 %, while for the same two months it averaged 21.5 % in Estonia in 1992, and 4.0 % in Lithuania in 1994. The average monthly inflation in Estonia and Lithuania over the 12 months after the introduction of a currency board was 6.9 % and 3.2 % respectively. It will be considerably lower in Bulgaria if the currency board continues to be strictly enforced.

There is another potentially very serious problem, facing the financial system under the currency board in the short term. In the 1991-1996 period, the banking sector was in constant turmoil, and seemed to specialize mostly in foreign exchange speculation and in generous provision of bad loans. After the crisis of 1996, which seems to have made Bulgarian banks highly risk averse and unwilling to give credits, and the pegging of the lev to the German mark in 1997, which effectively precluded their access to easy profits on the foreign exchange market, the banking sector in Bulgaria proves to be quite unprepared to start specializing in the sphere of its most fundamental comparative advantage: the identification of investment opportunities and the management of investment risk.¹⁶ The quick stabilization achieved in the few months immediately preceding and following the introduction of the currency board, leading to a situation of very high liquidity of the banks, may thus be deceiving and may cause a very serious long-term problem of the whole financial system to be overlooked.

In the longer term, the currency board, being a mechanism for enforcement of hard budget constraints, will inevitably result in economic hardship and unemployment for possibly large and possibly strongly concentrated groups of people.¹⁷ At the same time, by introducing a qualitatively new business environment in Bulgaria, the currency board will carry with it new winners and new losers, and, if the latter are numerous and influential enough, this may cause a public perception of unfairness of this new mechanism. This may seriously undermine, both on the local and on the national level, the public support for the reforms.

In conclusion, even though the introduction of a currency board has definitely led to monetary stabilization, the most realistic assumption is that in the medium term the financial sector in Bulgaria will be nervous, risk-averse, and fragile. Bank failures are likely, people may start having doubts about the reforms, and if both the bankers and the public are not prepared for such eventualities, panics may follow.

Policy Issues.

A very potent tool against some of the problems facing the operation of the currency board is anticipation. If the possible problems are recognized as a normal part of radical reform, and if their emergence and effects are carefully and consistently explained to the business and financial community, they may cause trouble, but will not be able to destabilize the system. Simultaneously, different policy tools can be used to help the banking sector to assume its natural functions with respect to investment and risk. For example, lending activities can be stimulated by providing information to and facilitating contacts between banks and businesses. At the same time, social safety measures, such as organizing qualification courses, and creating information banks about alternative employment, should be planned, financially secured, and in place by the time when the proper working hard budget constraints will inevitably cause displacement and highly localized crises.

3.2 The Role of the Government: Structural Reform

The present Bulgarian government is faced by the necessity to implement structural reforms and preserve at least some level of social safety in a currency board environment. The most important components of structural reform in the case of Bulgaria are privatization, institutional reform, and law enforcement.

At present, the Bulgarian economy is still heavily dominated by the government sector¹⁸, despite the fact that all four major types of privatization have been tried over the 1991-1996 period:

¹⁵ In May and June 1997, foreign portfolio investors, faced with lowering interest rates and absence of capital markets withdrew about 100 million of the 300 million US dollars brought into the country after the peaceful settlement of the political crisis in February.

¹⁶ This became particularly obvious during the harvesting of the grain in July and August 1997, when Bulgarian banks easily and readily financed the campaign to the tune of several hundred billion leva, while at the same time consistently refused loans to businesses, the only difference between the firms from the other sectors and the grain producers being the presence of state guarantees for the grain harvest.

¹⁷ Some preliminary estimates made public by government officials through the media, claim that the closing and restructuring of losing enterprises will increase unemployment by between 100 and 150 thousand people, which is roughly 2.5 to 4.0 percentage points, and, if the end of July 1997 figure is taken as base, unemployment will rise to around 700 thousand people, or around 18.3 %. The main problem is not the number, but the fact that this unemployment will be concentrated in small towns and rural regions where most of the losing state owned enterprises are situated.

mass privatization, sale to investors, restitution, and worker-management buyouts. The most important reasons for the lack of success in privatization so far are the lack of political will to privatize, the resistance by the state bureaucracy and by the managers of the state-owned enterprises, the absence of a capital market, and the spread of corruption. Of these, only the first factor seems to have all but disappeared after the April 1997 elections. The others still remain and the degree to which the present government succeeds in neutralizing them will be a major determinant for the success of the current privatization drive.

Corruption, too, is an important component but it cannot stop privatization. It can only slow it down, make it more costly, and damage the image of the reform policies, all of which are developments with potentially serious undesirable effects. Creating a capital market, some work on which is already being done, is an absolutely necessary condition for any success in privatization. It is expected that by the end of 1997 Bulgaria will have a functioning capital market, even though the present plans include a somewhat heavy government involvement. The most important problem is overcoming the resistance, especially at the local level, to privatization. Such resistance, especially when it represents a coordinated effort by middle level central government bureaucrats, local government officials (as in the case of land restitution), and CEOs of state-owned enterprises, may not only block the privatization of a given state asset, but has the potential of creating local crises, which may have national repercussions. It can also successfully drive potential foreign strategic investors away, and damage the overall investment image of the country.

The second component of structural reform, institutional reform, consists of restructuring the formal and informal norms of economic behavior in a way which, when enforced, will decrease the costs of starting and doing business. The program of the new government ambitiously outlines the basic changes it will introduce in the whole field of economic legislation, but most of the work remains to be done. One major risk on this front is the possibility that the government will not be able to muster political support for some important institutional changes, for example the abolition of the constitutional ban on foreign persons to own Bulgarian agricultural land, the introduction of different tax and tariff structures, etc. Another risk is the possibility that special interests will be able to block or compromise the adoption of favorable institutional changes, with the ensuing internal conflicts in the regulation of economic activity, increase in transaction costs, and stimulation of non-productive behavior. A third, and often underestimated, risk is the potential conflict between formal and informal rules of behavior due to the change in formal rules. When people's informal beliefs and norms of behavior clash with the newly introduced legislative rules, the costs of implementing reforms can increase dramatically, and their philosophy can be undermined. As an example, there is a firmly ingrained belief, held by many Bulgarians, that the state is under obligation to provide them with jobs and free healthcare.¹⁹ Since this is impossible in a genuinely market economy, the privatization and closing of losing enterprises with the consequent unemployment and the healthcare reform centered at establishing private paid healthcare will go against such a belief, and may be viewed as a refusal on the part of the state to fulfill its fundamental obligations and from there the whole economic reform may be viewed as unfair.

The third, and at this stage most crucial, component of structural reform is law enforcement. Over the last several years the state has virtually lost its monopoly over violence and is not capable of effectively enforcing the very rules it adopts legislatively. This inability to enforce rules means that economic structural reform, which is supposedly a fundamental change in economic responsibility and decision making, can fall prey to different special interests, corrupt individuals, and organized crime. Some of the most serious problems with inflation of basic goods and falling output can be directly traced to the activities of different criminal groups which are able to create and enforce their own "market" rules and, as long as they remain unscathed by a government sanction, are able to make reforms introduced at the national level irrelevant. The present Bulgarian government seems to understand the importance of this issue, and has undertaken different actions against such activities. So far, however, the campaign against organized crime and special interests seems uncoordinated and *ad hoc*. There is a reasonable chance that, once the government action becomes broader and deeper, and once the potential of organized crime to resist and secure the revenues necessary for resisting the government

¹⁸ Six years after the start of reforms, only about 20 % of the government economic assets have been privatized, while in 1996 the gross value added in the private sector is still only 47.4 % of the gross value added in the economy, and 45.6 % of the GDP. Source: NSI.

¹⁹Such beliefs find support in the Bulgarian constitution, adopted in 1991 by an ex-communist dominated majority in a Grand National Assembly, which guarantees to the Bulgarian citizens many entitlements, among which the right to work (art. 48), and the right to healthcare and free access to medical services (art. 52).

decreases,²⁰ the government will be able to bring down the criminal activities to some tolerable level which will allow for legitimate economic activities to take over. Such a development, however, is by no means certain, and the risk for government failure on this front remains disturbingly significant.

Policy Issues.

No matter how it proceeds, privatization will take time, and will always be surrounded by scandals. It is important for the government to find the delicate balance between complete avoidance of scandal and corruption, and fast sale of state assets. The simple fact that there will most likely always be some corrupt individual somewhere along the different deals, and also some losers who will defend their interests by throwing accusations, should be acknowledged and treated not as failure of privatization, but as a normal problem which has to be carefully treated with time, but which is not a reason to stop the whole process. Another very simple way to privatize the economy, i.e. to increase the proportion of assets whose management is private responsibility, is not only to sell or give state owned assets, but to foster the already existing private sector²¹ by providing market, credit and investment information, and by helping smaller businesses establish connections on the national and global markets.

Institutionally, before adopting new legislation, it is necessary to coordinate it with existing laws, and to research how such legislation will be accepted and interpreted by the public by using various public opinion polls and expert studies. Another important long term policy, for which the government should establish reputation, is the stability of the institutional environment: the government should work on convincing the economic agents that the new rules will last, and will be changed infrequently and only after profound discussion and explanation. Such an approach will significantly decrease uncertainty and, therefore, transaction costs, and will have a strong positive effect on economic activity.

On the issue of enforcement, the government can start by creating a framework for coordination of the efforts of the different branches of power in fighting organized crime and corruption. This framework may include exchange of information and mutual planning of specific actions, and should concentrate especially on the interaction between the executive and the judiciary at the local level, where the criminal groups usually operate.

3.3 The Role of the Government: Fiscal Problems

The most important problem facing the treasury is financing the budget in a currency board environment, where the printing press is not an option any more. At the same time, both on the revenue, and on the expenditure side, changes in the structure have to be made to foster reform and secure growth. This problem will not be resolved in the near future, but the medium term prospects are promising.

In 1996, the budget deficit was close to 11 % of GDP, mainly due to the explosion of interest payments on both the internal (due to the drastic increase of the base interest rate to 300 % by the National Bank in a futile attempt to curb the double digit monthly inflation) and the foreign (due to the precipitous fall in the exchange rate of the lev) debt.²² Possibly even more damaging to the size of the deficit was the fact that the budget was amended twice during the year, which seriously damaged any existing trust in the government, increased the uncertainty and raised the inflationary expectations. Such problems do not seem to be present in 1997. Even though the Budget Act was passed as late as June, its central parameters were coordinated with the IMF, its implementation is monitored by the international financial institutions, and the government has been careful to consistently stress that there will be no changes in the law. The budget envisages a 6.2 % budget deficit, most of which is due to the high interest payments at the beginning of the year.²³ The presence of the currency board ensures that there will be no inflationary financing of

²⁰ One example for a favorable development in this respect was the end of the war in Yugoslavia, which brought about a softening of the embargo, and thus cut off a major source of easy revenue for many petty and organized criminals and criminal groups.

²¹ This sector has demonstrated an amazing growth potential: between 1991 and 1995 it grew by around 100 percent in *real* terms, before dropping 10 percent in 1996. Source: National Statistical Institute of Bulgaria, "Statisticheski Spravochnik" ("Statistical Reference Annual"), 1995-1997, sections on National Accounts.

²² Source: Bulgarian National Bank, "Annual Report, 1996".

the deficit, and that there will be help provided by the international financial institutions if necessary, at least in the next two to three years. In the longer term the only danger to the budget will be presented by the possibility for populist proposals to be adopted, to increase government expenditures, and thus to put pressure on the currency board itself. This is not very likely, and if the present trend of falling and low interest rates continues, the Bulgarian budget may easily become balanced, or even record a surplus in the not very distant future.²⁴ The main reason for this is that, even though foreign debt service will remain high²⁵, its size will likely decrease as a proportion of GDP if economic growth takes place and its service will be supervised by the international financial institutions, while at the same time the low domestic interest rates will bring domestic debt service down from its peak of 16 % of GDP to less than 5 % of GDP in the foreseeable future.²⁶ Thus, government finances do not, by themselves, present a problem for the reform in Bulgaria. The only ways in which they may increase the risks facing the economy, is if the structural reform fails, or if populism returns.

Policy Issues.

The successful implementation of the 1997 budget means that in the medium run there may be room for more active fiscal policy. The budget will not be in danger if fiscal tools are used to both decrease the burden on the tax payers, and accumulate funds to secure the implementation of reforms. On the revenue side, the government is working with experts from the international financial institutions to overhaul the tax system, introduce stability in the tax regulations, decrease tax rates, and improve collection.

3.4 Economic Activity

After the hyperinflationary month of February 1997, when all but the very basic economic activities came to a virtual standstill, the fiscal and monetary stabilization, accompanied by the so far credible signs for the beginning of structural reform, has produced an environment conducive for economic growth. By the end of August 1997, there is a general consensus among official and private observers that the economic environment is improving²⁷, while the GDP forecasts for 1998 range from 0 to 4 % real growth. Another indirect indication for the improved outlook for the economy is the desire expressed by different agencies, such as *Merrill Lynch, Deutsche Morgan Grenfell* and *Paribas*, to have the Bulgarian international credit rating updated from its present lowest possible value of B3, which will improve the access of both the government and the private sector to the international capital markets, and will raise the market value of the state-owned enterprises to be privatized.

Some of the driving forces for this development are small private businesses, which are able to mobilize resources and increase production quickly and without the need to invest large sums first, foreign investments, which have considerably increased during the year²⁸, and net exports, which merit some special attention. The Bulgarian economy is very open, with a total foreign trade turnover higher than 75 % of GDP consistently over the 1992-1996 period²⁹, and possibly the easiest way towards economic recovery in the short run is to raise aggregate demand by increasing net exports. The export producing sectors of the economy can benefit in the short term from the depreciation of the German mark, which makes their products relatively

²³ At the end of June 1997, the deficit of the consolidated state budget is 374.245 million leva, which is 2.3 % of the projected GDP for 1997. More than half of this deficit, around 1.3 % of GDP, was accumulated during the first 2 months of the year. Source: Bulgarian National Bank Monthly Information Bulletin, #7, 1997, p. 20.

²⁴ One of the little known facts about the structure of the Bulgarian budget is that consistently over the period of failed reforms there has been primary budget surplus, and the deficits stemmed from the heavy payments on domestic and foreign debt. Source: Bulgarian National Bank, "Annual Report" for various years.

²⁵ Yearly total foreign debt service hovers around 1 billion dollars in the next 7-8 years, with a peak of \$1,335 billion in 2001, and then gradually falls off. Source: *Andrew Kenningham*, Bulgaria: Leveraging off the Deutsche Mark (Economic Outlook and Fixed Income Investments), Merrill Lynch, July 1997.

²⁶ Source: *Andrew Kenningham*, op.cit.

²⁷ See, for example, statement by Stanley Fischer, first deputy general director of the IMF, as presented in "IMF Approves of Monetary Policy and Sees Progress", "Pari" daily, September 11, 1997, p. 5.

²⁸ Total foreign investment between the beginning of 1992 and the end of July 1997 is close to \$1.1 billion, of which more than \$300 million, or almost 28 %, have been invested in the first 7 months of 1997. Source: the Foreign Investment Agency.

²⁹ Source: NSI, Ministry of Trade and Tourism.

cheap and more competitive on the foreign markets. In the long run, however, there is the risk of appreciation of the German mark, and it is certain that inflation in Bulgaria will be relatively high for at least another year, which may cause a real appreciation of the Bulgarian lev and decrease the competitiveness of Bulgarian exports. Therefore, Bulgaria cannot rely on net exports as the only source for long run growth. In the medium to long term perspective, Bulgaria has opportunities for growth in several large sectors, such as construction, as a part of building the European infrastructure, chemical industry, where the prospects are good and the foreign investment interest is very high, foodstuffs and agricultural products, where Bulgaria is very competitive in producing grain, canned foods, tobacco, dairy products, etc., telecommunications, and many others. If economic activity is not disturbed by political and institutional problems and crises, in the next 10-15 years, the Bulgarian economy has the potential to grow along the lines outlined above, but there are some serious risks that this potential will not be realized. First, structural reform may not be implemented swiftly, which will leave lingering problems, preserving the high uncertainty over the next years. Second, if the new legislation and rules for doing business are not adopted and enforced in full, transaction costs will remain high, which will hurt production and may sway the whole economic development of the country away from the most efficient path by creating powerful interest groups which are able to influence the political and economic decision making processes.

In the sphere of the labor market, there will be serious problems in the next 10-15 years. First, even if structural reform goes ahead as planned, there will be a lot of displacement of workers when the institutions of the market economy start being enforced and firms creating negative value added are forced to close down or restructure. Second, the Bulgarian labor force is aging and losing qualification as the education system suffers the consequences of prolonged economic hardship. If the Bulgarian economy is to become competitive, there will be a period of reorientation, during which the youngest, the oldest, and the less educated and qualified workers will not be able to adapt, while the rest of the economy will not be able to absorb, or at least support, them. Therefore, in the near future Bulgarian unemployment will be relatively high, and will be characterized with pockets, both geographical and demographic, of high concentration, which will be a constant source of problems and crises. In the longer run, especially if the growth potential of the economy is realized, the unemployment rate may drop significantly before starting to follow a more regular cyclical pattern.

Policy Issues.

The vitality of the small scale private sector can be stimulated by creating or assisting different programs stimulating the small business sector. In this way, since this sector does not require heavy capital outlays before it can start expanding, both economic activity will increase, the informal market institutions will become more firmly established at least in the business community, and the unemployment problem will be alleviated to some degree. In this respect, once again, the establishment and enforcement of a firm, constant, and predictable formal institutional framework is crucial. Changes in the rules should come rarely, announced early, discussed extensively, and their enforcement should be secured before their introduction. Stimulation of foreign investment should not be based on differences in the treatment between domestic and foreign investors, but on the creation of a favorable environment for any investment activity.

With respect to unemployment, strategic decisions have to be made about the provision of social security, unemployment benefits, education and qualification. The relatively cheap and highly qualified and educated labor is one of the most important strategic resources of Bulgaria, and education and qualification should be a high strategic priority in any long term economic program.

3.5 Conclusions

With respect to the medium term, the prospects for the Bulgarian economy can be summarized by several observations.

- The Bulgarian economy is still state dominated. The transfer of decision making powers and responsibilities from the state to private persons will involve difficulties, conflicts, and time, and will make the economic environment inherently unstable.
- After the deep crisis of 1996, the economy has a high growth potential and the support of the international financial community. The introduction of a currency board will bring trust in the economy, hard budget constraints and low inflation.

- In the next several years, the polity will have to deal with alleviating the hardships caused by the ongoing reform, reestablishing its ability to enforce the law, privatization, and institutional reform, all of which will have more or less potent opposition.
- The financial system will be fragile. This will keep its ability to finance the economic growth limited, which makes the access of Bulgarian public and private entrepreneurs to international capital markets very important. The Bulgarian economy will be highly dependent on international flows of goods and services, and on the movements of the German mark.

Despite the serious problems and risks, Bulgaria has all the ingredients necessary for a sustained economic development. The crucial ingredient which remains is the persistence of a pro-reform democratic regime.

PART FOUR: SCENARIOS

"I can't remember things before they happened"
Alice (in Wonderland)

Introduction

Scenario analysis often applies to strategic modeling of the political future. Approaches to the construction of scenarios could vary greatly³⁰. The basis of construction could be the "most probable" or the "unthinkable" developments. The basic advantages of "scenario thinking" are that it brings into the limelight the multitude of variants in the activities of social and political actors; throws light on complex interrelations between various factors; and last, but not least, engages in constructing the essential picture of the future. This makes it an important tool in the decision-making process.

"Scenarios" practically never materialize in the way they have been constructed, yet they are the models through which every government thinks and evaluates the perspectives of its policy. Scenarios are not political forecasts, they are not trying to picture the most probable developments. In the genre of *_warning paper* scenarios attempt to picture the most probable risky developments.

The five scenarios which are "played out" in the proposed analysis are certainly not five distinctive histories of the future. Quite often the "materialization" of a specific scenario becomes a premise for the emergence of the next one. What makes up the unity of the five scenarios is that each one of them is hiddenly, implicitly present in the current situation.

All of the scenarios are constructed in a similar way. There is always a "story", an analysis of the factors increasing the probability of the "imagined" developments and risk-avoiding strategy. The five scenarios are divided into two families. The "chaos family" includes the scenarios "Kosovo", "Kozlodouy" and "Tirana", all of which construct models of total disintegration of the social infrastructure. The "dangerous family" includes the "isolationist" and "Mexican scenarios", which are in their essence not scenarios of state collapse and social disintegration but represent developments leading to such collapse. The major characteristics which distinct the five models of the future are:

- the source of political instability they suggest /"Kosovo" and "Mexican" scenarios are constructed around external threat; the others are shaped around internal threat/
- the identity of political and social actors that dominate each scenario/Mexican scenario is a "failure" of the reformers, "isolationist" scenario is dominated by anti-reformist forces/;
- the type of social project they advance/"Mexican" scenario is aiming at the marketization of social life and public policies, "isolationist" scenario is aiming at preserving the interventionist state/

There are three main presumptions for outlining the different scenarios.

The first is that Bulgaria has shown symptoms of the "weak state" in the last seven years. Bulgaria's economy is the worst performing postcommunist economy in Europe³¹, which has failed to produce any sustainable economic growth³², the country failed to keep the agreements with the IMF, and became the object of humanitarian assistance in the beginning of 1997.

The second assumption is that Southeastern Europe displays features of a risky region. The Dayton Accords promoted the situation of no-war, but failed to promote peace in Bosnia-Herzegovina, according to respected analysts Kosovo remains the source of regional instability³³,

³⁰ See Wack Pierre, "Scenarios: Uncharted Waters Ahead", *Harvard Business Review*, 63:5, Nov-Dec, 1985. See Wack Pierre, "Shooting the Rapids", *Harvard Business Review*, 63:5, Nov-Dec, 1985. See Yergin, D., Gustatson, T., *Russia 2010 and What it means for the World*, Cambridge Energy Research Associates Report. (Random House 1993, 1994).

³¹ See Part Three.

³² See Part Three.

³³ RAND Papers.

there are symptoms of increasing internal instability in Serbia and Macedonia³⁴, Albania is on the road of institutional recovery but the risks remain high.

The third presumption is that there is a high level of individual insecurity among the majority of Bulgarians. This insecurity is associated not with fears of geopolitical character³⁵, the majority of people are not afraid of war, but there is a rising fear of unemployment, of crime and the inefficiency of welfare system /health care, pensions, etc./.

(A) "Chaos Family"

The "chaos" scenarios are the nightmare that every politician attempts to avoid. It could be provoked either by foreign events and factors or by internal ones.

The distinct features of these scenarios are: incapability of the legitimately elected government to exercise power and control over the country's territory, a high degree of social disintegration, massive violation of the civil rights of the population, unchecked violence, supply crisis, and necessity for humanitarian or military intervention.

The state collapse in Albania (though relatively brief, Spring of 1997), as well as certain symptoms of institutional paralysis during the winter crisis in Bulgaria, 1996-1997, make us believe that the ground for the scenarios of "chaos" should be carefully examined.

The determining factors leading to such a scenario are:

- Erosion of the social support for the legitimate government and a drastic decrease in the standard of living of the majority of people (Przeworski contends that a democracy is not very likely to survive at a per capita income below \$1000); GDP per capita in Bulgaria in 1995 was \$ 1537 based on the lev-dollar exchange rate, or \$ 4071 based on the purchasing power parity method³⁶ and the support for the government during the winter crisis reached 7%³⁷.
- Corrupted and incompetent public administration; Public polls indicate that the public is perceiving the government as corrupted and the inefficiency of the state administration according to the present government is at a dangerous level.
- Intensification of the ethnic and religious tensions on regional or national level (decline in living standards and regionalization of poverty can erupt in ethnic strife;
- Lack of political nerve on the side of the U.S. and of the EU to follow a policy of involvement towards Southeastern Europe.

Depending on the cause of destabilization, in the framework of the large "chaos" family one could differentiate three chaotic scenarios:

4.1 The Kosovo Scenario

Collision between Albanians and Serbs in Kosovo. A sovereign "Republic of Kosovo" is declared. Massive invasion of Serbian troops in Kosovo. A wave of ethnic fighting and outrage in Macedonia. Subsequent influx of Macedonians and Albanians into Bulgaria. Clashes at the border claim dozens of victims. Indecisiveness on the side of UN and NATO which are reluctant to send troops to Kosovo. UN troops in Macedonia are blocked in their peace keeping functions (they are insufficient in number). The Macedonian government invites, or insists on having, assistance from Belgrade to help manage with the Albanian uprisings. Serbian troops enter Macedonia. Political crisis in Sofia ...

A number of similar strategic analyses which hinge upon the likelihood of a "third Balkan war" were proposed following the eruption of the Yugoslav war. Most interpret a possible spill-over of the Kosovo crisis against the backdrop of the pre-war history of the region and claim that a new conflict between Balkan states is very likely.

What distinguishes the current developments from the Balkan wars at the turn of the century is that the participants are not young and aggressive nation-states which aim at territorial enlargement or national liberation. Rather, they are weak post-communist states of ethnically and

³⁴ Materials of the Conference "Towards Stability on the Balkan Peninsula", June 6-8, 1997.

³⁵ According to Gallup Survey, only 14% expect to be involved in a war in the near future.

³⁶ Sources: National Statistical Institute of Bulgaria, *Statisticheski Spravochnik (Statistical Reference Annual)*, 1997; *Bulgaria. Human development Report*, 1997. (Sofia: UNDP, 1997).

³⁷ BBSS Gallup International, Political and Economic Indexes.

socially divided societies. Thus, the Kosovo scenario does not represent a traditional war, but a model for destabilization in Southeastern Europe. This destabilization affects the ethnic and cultural boundaries within the region, rather than state borders per se. This scenario implies a transformation of the region into a great Bosnia and threatens Bulgaria's territorial integrity.

Below is a discussion of the major factors influencing the probability of such a scenario.

The last several months have witnessed a re-positioning in the Kosovar shadow government. The moderate faction of Rugova is challenged by more radical groups. Rugova is openly challenged by Bujar Bukosi/prime minister in exile of the Republic of Kosovo/, and by one of the leaders of his own Democratic League of Kosovo - Adem Demaci/leader of the parliamentary faction of the party/. The increasing support for the illegal Kosovo Liberation Army indicates that radical factions are gaining importance. The success of the militant factions will increase the risk for clashes in Kosovo.

After the political crisis in Serbia which resulted in the acceptance of the opposition victory in the 1996 local elections, the political situation in Serbia is marked by three major events. (1) Milosevic was elected President of a new Yugoslavia (Serbia and Montenegro); (2) the opposition disintegrated, opening room for the Socialist presidential candidate to win the coming presidential elections and (3) Milosevic and his supporters confronted the international community directly, by siding with Karadjic in the conflict in the Republika Srpska. All these developments in Serbia suggest that an anti-Albanian campaign targeting Kosovo can be used to mobilize public support for the endangered Milosevic regime.

In addition, recent developments in Macedonia support the hypothesis that political risk will increase in the region. (1) The country is in a state of overall economic collapse. (2) The VMRO (DPMN) opposition radicalized its criticism against President Gligorov. (3) The state of Gligorov's health raises fears that the stability of this newly sovereign state depends on the personal charisma and networks of the incumbent President. (4) The collapse of the Albanian state enforced the process of illegal immigration of Albanians into Macedonia. (5) A lot of weapons were trafficked from Albania to Macedonia.

The political debate in the United States, the major guarantor for the stability of Macedonia, increases the probability for risky developments. Congress continues to pressure President Clinton to stand by his commitment and withdraw American troops from Bosnia in 1998. This is an indication that the US decision-making elite is unwilling to support further involvement in the Balkans. At the same time, the record of the European powers in efficient crisis prevention is not convincing. Germany /the major European power/ because of historical reasons is especially unsuitable to assume moderating functions.³⁸

All these factors make "Kosovo" a probable scenario for the political future. Should the Kosovo scenario materialize under the present socio-economic circumstances, it would endanger Bulgaria through the risk of (1) military clashes on the border with Macedonia; (2) the influx of refugees which will cause great difficulties for the economy and social infrastructure; (3) emergence of a major new division in public life³⁹ which will undermine the existing consensus; and subsequently, (4) conditions for tensions on ethnic and religious basis.

Risk Avoiding Strategy

Many factors can increase or reduce the probability of the Kosovo scenario. For the Bulgarian government, the promotion of political stability in Macedonia is key to any prudent risk-avoiding strategy. In the context of the present Bulgarian-Macedonian relations, there are three most promising short-term policies:

- (a) Bulgaria ought to insist on a continuing American (under UN auspices) military presence in Macedonia;
- (b) Bulgaria ought to insist on changes in the Macedonian position concerning the Macedonian minority in Bulgaria;
- (c) Bulgaria ought to go beyond the language dispute in its relations with Macedonia, accepting the right of Macedonians to call their language as they wish, while at the same time insisting on:
 - A declaration on the acceptance of the existing borders;
 - The establishment of a free trade zone;

³⁸ Senior officials and journalists in Macedonia have stressed on many occasions that Bulgaria was Germany's ally in the WW II.

³⁹ Political instability in Macedonia will re-shape the public debate in Bulgaria. Today Bulgarian public debate is structured around the issue of economic reforms, risky developments in Macedonia will put security issue on the agenda and the society will be divided in its opinion on Bulgaria's role in the Macedonian crisis.

- Free cross-border circulation of publications and books;
 - Realization of the agreed infrastructure projects (*enumeration*);
 - Encouragement of investment between the two countries.
- (d) Bulgaria ought to adopt an integration strategy vis-a-vis NATO and EU, which stresses the significance of Macedonian integration into these structures.

4.2 The Kozloduy Scenario

Explosion in the Kozloduy Nuclear Power Plant.

This scenario implies a destabilization of the country as a result of a significant ecological disaster or industrial accident. The hypothetical nuclear accident in the nuclear power plant "Kozloduy" is a model of such a crisis. An accident of this kind would lead to a massive destruction of the country. But this scenario is not focused on the potential risk of the Kozloduy nuclear power station. The technological risk reducing policies are presented in several international papers.

The "Kozloduy" scenario brings to light two significant risk factors in the region's post-communist countries: one is the lack of technological control on the side of the government on the technologically old and dangerous productions and, two, the incapacity of the government to act efficiently in a state of emergency. The "weak" state, which is among the major presuppositions for the scenario "chaos" as a whole, does not imply an efficient crisis-management. An ecological disaster or a big industrial accident can lead to destabilization because on the eve of the "chaos" the state suffers from an advanced stage of institutional paralysis. The reaction of a series of Bulgarian governments shows that an ecological catastrophe or accident can accelerate existing processes of disintegration and collapse.

According to the State Commission on Emergencies 90 enterprises from the energy sector and chemical industry are pointed out as sources of major risks. The figures prove that the number of technological accidents and of their victims is increasing (See Appendix Two).

Major factors increasing the risk for technological accidents are;

- Outdated technologies (the industrialization of Bulgaria took place mainly in the 60s and 70s);
- The lack of investment.
- The general crisis in the society and the decline of the technological discipline;
- The fact that technologically underdeveloped sectors are highly unionized, which makes them politically powerful and prevents closing of the dangerous enterprises.

Risk Avoiding Strategy

In the situation when there are no available funds for the investment in the safety of the enterprises, and the when the fear of unemployment prevents radical measures on the side of the government, two policies are of great importance

- (1) in the privatization deals investments in safety have to become priorities
- (2) a public awareness campaign has to be undertaken by the government and the NGOs directed at "dangerous sector" at the local level.

3.3 Tirana Scenario

The closing down of large yet loss-making enterprises and the impossibility of alternative employment in entire regions causes starvation unrest, massive refusal to pay taxes, robbery of warehouses and stores, as well as a significant wave of anti-social behavior. The low producer prices of regionally important agricultural products (as is the tobacco in the ethnically mixed regions) become a reason for the destabilization of the regions with mixed population. Local strikes and civil disobedience take place in the different parts of the country. The government in Sofia in practice loses control over some regions. Protesters refuse to talk both to the government and opposition. National trade union leaders are not allowed by the people to come to the protesting regions. Parliament asks the European Union to negotiate with the protesters.

The "Tirana" development is generated by internal cataclysms; its cause is the disintegration of the social infrastructure. Such destabilization could be provoked by activities either of a reformist or anti-reformist government. Essentially, the "Tirana" scenario presents a collapse of statehood. It comes about as a result of the government's incapability to cope with the

socio-economic and socio-political conflicts, as well as to neutralize potential agents of destabilization. Thus the Tirana scenario is the manifestation of the "weak state".

Major factors increasing the risk of "Tirana Scenario" are :

(1) the introduction of the Currency Board ; (2) the regional character of the unemployment; (3) the strength of the organized crime; (4) the weak opposition.

(1) The Introduction of the Currency Board in Bulgaria on July 1, 1997 radically re-shapes the policy environment. The Currency Board will result in the drastic cuts in public spending and the corresponding rise in unemployment. According to various sources the unemployment will rise by 3-4 percentage points ⁴⁰. The unemployed are going to come mostly from the public administration and the closure of loss-making enterprises. If the restrictions imposed by the Currency Board are not compensated by the creation of new jobs it is probable that the social infrastructure of some regions in the country will collapse. The Currency Board can be destabilized also through the tendency of stagflation which can be noticed in Bulgaria in the summer of 1997. Inflation in the first months of the Currency Board which was higher than the expected one was due to the devaluation of the Deutsche mark, the control exercised by criminal structures on the food market and the rise of the prices due to the limited consumption. If the government does not manage to reduce the 2% monthly inflation, the Currency Board may get under pressure, and its failure will increase the risk of total destabilization.

(2) Unemployment is a crucial factor for the probability of risky developments not so much because of the general number of the unemployed people but because the distribution of the unemployment. According to the present figures even now the unemployment in some of the mountain regions is reaching 80%. The black market and family farming cannot compensate the closure of the major regional enterprises. So it can be expected that in certain regions people will be unable to pay for heat and electricity. Socially motivated protests seem very probable. It is also important to underline that the Trade Unions are stronger in the loss-making enterprises. According to trade union sources - the strongest unions are the ones of the workers from the metallurgy and mining industry. There is one more important specific feature of the structure of Bulgarian unemployment. Bulgaria is the country in Eastern Europe where the number of people who are out of work for more than one year is greatest /OECD/. This figure indicates the emergence of an underclass, which is the potential agent for Tirana scenario.

Organized crime is the other major factor increasing the probability of the Tirana scenario. Criminal structures can become the major factor for the destabilization. According to the Ministry of Interior the criminal structures are most powerful in the border regions, and in the Black Sea coast area. One of the result of the embargo was the internationalization of the criminal activities. The inefficiency of the local police and the judiciary combined with the government's anti-crime policies can provoke collapse. On the one side the present government is committed to fight corruption, on the other some of the local law enforcement structures are corrupted, and this combination makes the risk for the Tirana scenario higher.

The weak opposition is also a factor increasing the risk of the Tirana scenario. The weak opposition /which is the case with the socialists now/ affects the probability of the catastrophic developments by (a) not presenting alternative to the status quo; (b) depriving the government from an opponent with whom it can negotiate solutions; (c) by localizing the conflicts. The lack of a credible national opponent of the government strengthens the local character of the opposition.

A more careful analysis of the political crisis in Bulgaria at the beginning of 1997 leads to the following two conclusions. First, a new socio-political crisis in Bulgaria would more likely be a series of local conflicts with high intensity rather than a general political protest headed by the opposition. And, second, the centers of such a crisis would be outside of the capital Sofia and of the other large cities, Varna and Plovdiv. In this regard, the most risky are the regions where the enterprises of the military industrial complex (MIC) are located (because of the weapons spread around among the people) and the regions with a mixed population, because of the potential for the religious or ethnic development of the conflict.

The danger of a "Tirana" type of destabilisation increases because of the existing tension between the central and the local authorities. At present most of the local councils are dominated by BSP majorities and the central power is UDF controlled.

Risk Avoiding Strategy

The reduction of the risk for the Tirana scenario depends on the overall policy of the government and especially on its success to create an efficient safety net for the "losers" of the

⁴⁰ Around 100.000-120.000 new unemployed are expected.

reforms. But in the political perspectives the major policies which can reduce the risk of the Tirana scenario are three.

- (1) The first one is the adoption of the Early Warning system, which can help the government craft preventive policies based on the objective information for the level of the risk in the different parts of the country. Early Warning System has to be located outside the administration.
- (2) Second policy to be recommended is the empowerment of the local governments. Powerful local governments have better potential for the "Tirana" preventive policy than the national government. The law for Local Self-governance has to be among the priorities of the Parliament
- (3) The third element in the risk-avoiding strategy is the strengthening and encouragement of the network of charity and community organizations. The civil social network can take on some of the responsibilities of the state and make the transition bearable for the population. So tax breaks for the charities and for the community foundations have to be introduced.

4.4 Remark: When is "Chaos" Possible?

Bulgaria's regional policy is not a source of destabilization. However, the high degree of internal instability makes Bulgaria an easy victim of an "imported" instability. Every development of a crisis in the ethnic or socio-economic situation in the region relates directly to Bulgaria's security condition.

The success or failure in building an adequate system of social security is the other great challenge. A wrong sequence of reform measures or an absence of account for the factor "criminalization" could provoke irreversible social cataclysms.

However, there are a series of factors that make the "chaos" scenario less probable. The most important are:

- The presence of UN troops in Bosnia, Macedonia and Albania, the fear of destabilization, characteristic not only of the governments in the region but also of the great majority of opposition and ethnic leaders;
- The experience which international organizations, and the international community in general, gained in crisis prevention. At present, for instance, one could expect that the World Bank, the IMF, and the EU would be partners of the Bulgarian government in ensuring the acceptance of the social cost of the reforms;
- The stability and general capability of the democratic institutions demonstrated in the winter crisis of 1997 lowers the danger of total destabilization;
- The Kostov government activities against the structures of the organized crime also contribute to diminish the risk of a "chaos" scenario;

To sum up, the "chaos" scenarios are unlikely yet not impossible for Bulgaria's political future. The imaginary state of chaos could last indefinitely long. But even a brief passage through "chaos" would put a durable mark on society's political culture and on its political institutions. It would also at least put off Bulgaria's integration into the EU with a generation. The "chaos" development would strengthen the emigration attitude of the active part of the population. It would make Bulgaria dependent on various international organizations' programs for assistance. The materialization even of separate elements of the total collapse scenario will cancel Bulgaria's national label from the list of the countries which are attractive for investors.

(B) "Danger Family"

The "Danger Family" consists of two scenarios. The "isolationist scenario" explores the probability and sustainability of an anti-reformist regime oriented towards state interventionism and based on the support of the "disappointed majority". The "Mexican scenario" explores the dangers for the radically reform minded government oriented towards opening the economy and promotion of pro-investment policies. Both scenarios are not scenarios of collapse but the avoidance of the "isolationist regime" and the minimization of the "tequila risks" are at the center of the successful reform policy.

4.5 "Isolation" Scenario

The harshness of reforms erodes the public support for them and a new populist government comes to power with a program to defend the national interests. Statutes protecting the Bulgarian producers are passed, privatization is stopped and deliberate actions against foreign investors begin. Under populist slogans for protecting both producers and consumers,

heavy involvement of the state in economic decision making is reintroduced. Bulgaria unilaterally refuses to continue servicing its foreign debt and the international financial community withdraws its support.

The isolationist policy could result either from an attempt to prevent "chaos scenarios" or from a failure of a "Mexican scenario." Isolationism is a perpetual threat to the country's political development in the next 15 years.

Essential features of the isolationist scenario are the orientation of the economic and political life toward the state and its major institutions, a regulated market, heavily protected from foreign competition, a centralization of power, a higher degree of populism and nationalism in society, a restriction on civil rights.

The analysis of the political processes in Eastern Europe during the last 7 years demonstrates that the establishment of an isolationist regime is more often than not a result of a failure of the liberal reforms. In their essence, such regimes present a consolidation of the old elites.⁴¹ In Latin America analogous regimes are characterized by strong elements of authoritarian rule and a significant participation of the military in the political life.

The most important presupposition for materializing the isolationist scenario in Bulgaria are as follows:

- Decrease of the standard of living of significant portions of the population and disappointment in democracy and the market; According to OECD income in Bulgaria in the period 1989-1995 has fallen 50%. In the end of 1994 when BSP came to power, 54% of the population declared that the country was on the wrong track and that "before" was better than now.
- The state paternalistic tradition and the nostalgia toward the communist state social security;
- Increase in unemployment by 3-4 percentage points due to the implementation of reforms, and continuing decline in output;
- The demographic tendency toward aging and the enlarged number of state dependent groups⁴²;
- Undeveloped market mechanisms and the existence of local monopolies due to the weakness of the state;
- Refusal to accept and resistance against foreign investment (it is important to note at this point that the smaller and more symbolic the part of the foreign capital in a local economy the stronger the anti-investment feelings);
- Lack of will on the part of the EU countries to carry out an active policy of integrating Bulgaria and Southeastern Europe; Bulgaria's remaining out of the first wave of NATO and EU enlargements indicates the tendency of the NATO and EU to treat Southeastern Europe as a region with secondary importance.
- The public support for the stronger hand and quick victory over crime and corruption; Gallup indicates that in the end of 1996, 70% of the BSP supporters in the end of 1996 saw the upholding of civil rights as an obstacle to a successful anti-crime campaign
- The emergence of an anti-West regional "super power" (Russia, Turkey). The risk of realization of the isolationist scenario will increase if the two potential superpowers of the region decide to follow anti-western policies. The isolationist regime in Bulgaria will become much more probable if Russia changes its foreign policy orientation.

Economically, the "isolationist regime" would demonstrate itself through imposing protectionist measures (increase of the import taxes, preferential treatment of various sectors of the national economy, raise in the burdens imposed on foreign investors). Under an isolationist regime important policies will include: selective treatment of foreign investors, attempts at domination over the private sector (through tax policies and forms of confiscation), use of the state banks as sources of subsidies for loss-making state enterprises, restriction of the scope of privatization and tolerance for the state sector.

The policy of isolationism has an anti-reformist character but does not present a form of restoring the "ancient regime."

Such a policy could rely on a social support in the short run. The very practice shows that during the first 1-3 years of its establishment the isolationist regime leads to economic growth,

⁴¹ Meciar's regime in Slovakia is a good illustration of this tendency.

⁴² Between 1990 and 1995 the dependency ratio (the ratio between the number of pensioners to the number of contributors to the pension funds) increases from 55.1 % to 89 %. Source: OECD, "Bulgaria 1997, Economic Survey".

growth of export, decrease of unemployment. It also has successes in fighting crime. In the long run, however, the isolationist type of regime lacks the resources for providing sustainable economic development.

The weakest side of such a regime is the character of the social forces that give it support. The latter is rooted in the majority's anti-reformist feelings, as well as in the interests of the state administration, of the state enterprises' management, of the national capital and its protectionist attitude and of the populist attitude of certain political leaders.

Politically, the Bulgarian version of an isolationist regime has the following five distinct features:

- Power centralization and domination of the executive branch (a charismatic leader);
- Decreasing role of the National Assembly (the parliament) and restriction of civil rights. The majoritarian rule replaces the consensus in the decision-making process;
- Restriction of the rights of the opposition, the civic organisations and the free press;
- Enhancement of the role of the army and the police (powerful media campaign for the necessity of an uncompromising war against crime);
- Increase of the role of the nationalist rhetoric and anti-minority feelings in social life (anti-Roma campaign most probable).

In Latin America's political practice, as well as in other countries of South Europe until the 80s, isolationist regimes set themselves up after military intervention in the political life. In Bulgaria such a development is less probable. It is also highly improbable to have any kind of classic authoritarian regime established and free elections abolished. A possible scenario of imposing an "isolationist" regime includes an overwhelming election victory of a populist party (often but not necessary "leftist"), a consolidation of the anti-reformist social majority, an isolation of the pro-western political and economic elite.

It is not ruled out that moderate reformist governments transform themselves into isolationist. In this sense "protectionism" is a temptation of every government. And, different governments could have "isolationist periods," as was the case with Videnov's government at the beginning of their mandate. If one should look for a demarcation line between "moderate" and "hard" isolationism, one should note that as a rule the "hard isolationism" would announce a moratorium on the foreign debt's payments and would interrupt, or at least "freeze," the relations with the WB and the IMF.

In the field of foreign policy, an isolationist regime would be covertly or openly anti-western and would revert Bulgaria toward Russia. In its regional policy it would replace the strategy of integration by a balance of powers. With a high degree of probability it would be anti-Islamic but would hardly be ready to run into adventurous activities.

Risk Avoiding Strategy

The risk avoiding strategies against the establishment of an isolationist regime in Bulgaria are as follows:

- Increase in the openness of the Bulgarian economy by decreasing barriers and by integrating in the European and world markets;
- Diversification of the import of raw materials and capital aimed at avoiding dependence on one source;
- The protection and development of the democratic institutions and the stimulation of the mechanisms of the civil society;
- The completion of privatization, which will decrease the potential support for an isolationist regime;
- The continuation of pro-western reforms, policies and orientation by the country's ruling elite.

On the political level the two major policies for the avoidance of the isolationist regime:

- (1) The success of the administrative reform undertaken by present government, which will erode the social base of the isolationist takeover.
- (2) The diversification of the import of raw materials. Bulgaria has to make an attempt to have more than one supplier of oil, gas and nuclear fuel. From this perspective the development of the gas pipe project with Gazprom and Burgas-Alexandropulus oil pipe have to be balanced with the construction of the Burgas-Dures pipeline.

4.6 THE TEQUILA SCENARIO

Year 2000 - due to widespread social discontent the presidential elections in Russia are won by a hard-line communist. Plans for a complete turnaround in Russia's economic and foreign policies are immediately announced: suspension of privatization plans; re-nationalization of strategic industries (banking, oil and gas, etc.); introduction of severe capital controls; revision of Russia's agreements with the World Bank and IMF; tying economic cooperation and trade with neighboring countries to Russia's political demands (anti-NATO and EU).

Markets react instantaneously: investors in Russian treasury and corporate securities rush to unload these holdings and prices fall sharply; paper issued by Central and East European countries, although at a smaller scale, loses value too. Confidence in the entire region's economic and political future is shattered.

The Bulgarian ripples 1) A forthcoming debt issue by Gazprom to further finance its Bulgarian gas-transportation project has to be scrapped. As a result, the project, in its second stage of construction, must be frozen temporarily. Around \$ 450 million of investments made, one third of which loaned by Bulgarian banks, are thus tied up for an indefinite period of time with no clear prospects for repayment. Bulgaria's access to low-cost energy for industrial and household needs is postponed. 2) Two large Russian banks holding stakes in Bulgarian counterparts are threatened by nationalization. Depositors in the two Bulgarian banks rush to withdraw their money creating a systemic risk for the entire banking sector. 3) Portfolio investors in Bulgarian domestic securities sell and repatriate huge amounts of capital. The Central Bank's foreign exchange reserves plummet. The currency board rules mandate that the money supply must be contracted accordingly.

The scenario constructed in this analysis is called "Tequila" scenario because it is characteristic for the current stage of globalization and its mechanism was best demonstrated by the well-known Mexican peso crisis of December 1994. This scenario is "universal" for the political development of emerging markets.

This scenario is a model of economic collapse, financial chaos and political crisis following a period of economic boom. The Tequila scenario is a model of across the board market deregulation and abrupt withdrawal of the government from the economy in a situation where there is no social basis for reforms, absence of stable democracy and lack of economic culture of the citizens all of which otherwise could in principle guarantee the sustainability of the economic growth.

The isolationist scenario is an attempt of the anti-reform majority to closely control the process of economic and political development of the country. In contrast, the Tequila scenario is an attempt for dictate by a reform-minded minority. The aspiration of the pro-Western political elite to overcome the lags in the process of market reforms make this scenario possible for Bulgaria.

Some of the major factors that will make such a scenario more probable can be summarized as follows:

- Non-diversified economic relations with the rest of the world - continuing economic (fuel - nuclear, oil and gas; raw materials; export trade) dependence on a small number of partners, most notably Russia, characterised by potentially unstable political regimes. Continuing to import most of its energy sources - nuclear fuel (generating some forty per cent of the country's power supply), oil, gas - from Russia, Bulgaria remains hostage of political attitudes, priorities, and uncertainties there. On a few occasions over the last seven years Bulgaria faced winter energy crises due to disrupted supplies from such sources.
- Failure to implement rapid structural economic reforms that would bring and keep in the country a large number of strategic investors in multiple sectors of the economy. At present, the limited amount of long-term foreign investment capital in Bulgaria and the liberal capital controls make the national economy particularly sensitive to quick capital outflows resulting from liquidated portfolio investments.
- Absence of a developing small- and medium-size business sector providing some level of flexibility to the national economy
- Existence of a pro-restoration, pro-isolationist political alternative such as the hard-line faction within the Bulgarian Socialist Party
- Investors' non-confidence due to, among other things, the government's lack of a solid track record of consistent support for liberal economic reforms. Even sporadic and otherwise unimportant actions by the government may cause investors to question its commitment to

free market principles and practices - for example, the government-led, summer 1997 campaign against "grain and milk speculators".

Politically, the "Mexican regime" is tolerant to democracy and its institutions but it is clearly elitist in nature. The basis of this regime is constituted by the business establishment, the young and educated generation, and the foreign investors. At the same time, this regime is hostile to local government and civil participation, reducing the role of the civil society to free entrepreneurial activities.

Risk avoiding strategies

Key measures whose prompt or ongoing implementation will help avoid or at least minimize the adverse consequences of a tequila scenario for Bulgaria:

- Worldwide diversification of Bulgaria's economic ties with an emphasis on politically stable countries as partners.
- Policy of aggressively seeking and attracting as investors *world leaders* in the respective industries whose presence in Bulgaria can provide, apart from capital, more valuable long-term benefits - state-of-the-art technologies, education, business skills, knowledge, reputation.
- Good cooperation with the World Bank and the International Monetary Fund which will: 1) reinforce investors' confidence in the country; 2) facilitate quick access to emergency financing, if need be.
- A stable legal framework geared toward already announced, long-term economic objectives
- An administrative reform which, among other things, will reformulate the role of the administration at all levels from one of imposing solutions to one of negotiating them within the frame of the law.
- Active involvement of businesses regardless of their nationality in policy design and decision-making at the central and regional levels
- Creation of mechanisms to manage conflicts/disagreements between businesses and the administration.

Policy Recommendations

1. Bulgaria's government would be well advised to discontinue the so far existing, politically-motivated polarization of the country's foreign economic relations, and promote intensive trade and investment with countries from Europe, North America, Southeast Asia, other than the traditional partners - Russia, Germany, Japan.
2. A special effort must be made to identify and attract high-quality foreign investors in key sectors of the economy - finance, telecommunications, transportation, energy, technologies. In the context of privatization, this can be done by selecting buyers based on their overall business profile and prospects rather than the bid price only.
3. The government should work for eliminating real pro-restoration political alternatives and expanding the political and social support for needed reforms by allying with reformist groups and individuals regardless of their political color.

4.7 Bulgaria: Facing the Risk

In the genre of a "warning paper" the success scenario is not a picture of the future, but rather a model how to avoid the failure of the reforms or a model of how to avert the political and social destabilization of the country, the establishment of an isolationist regime, or the risk of a radical liberalization without social basis.

The challenge in principle is how to combine a growing competitive economy based on market principles with the development of democracy in the country.

The analysis of the political risk Bulgaria will face in the coming ten-fifteen years is not a manual with risk reducing policies. The very nature of the risks the country is facing pre-determine that the major challenge to our security will be the way we think about security.

Since 1989, the year in which the Cold War ended, more than four million people were killed in the world and more than 100 violent conflicts have taken place. Most of them were intrastate conflicts. The internal instability or what we defined as "weak state" becomes the major source of conflict. So, the problem which we want to address in the conclusion of our paper is to what extent the National Security Doctrine which was adopted in 1995 can provide a framework for preventive diplomacy and risk avoiding policies.

In our view the Security Doctrine fails to address the new threats. And the major reason for its failure is the fact that it is state-oriented and territory-oriented. The obsession with

sovereignty and territory explains security in the terms of borders and population. But the threats Bulgaria is facing are not confined to the protection of the borders and population. The challenge to the Bulgaria's security today is the crisis of governability, the failure of the legitimate government to implement its policies. The threat is not war but disintegration, so in order to address this challenge Bulgaria needs a new Security Doctrine. Misperception of the risk is, too, a risk increasing factor.

ANNEX ONE

Crisis Experience: the New Style Behavior

From 1986 to the present (august 1997) Bulgarian society passed through three very serious political crises, of which two originated at home and one abroad; in all three cases the scenarios that entailed violence were not vindicated. If we throw in the expectations for violent score-settling in the aftermath of the elections of 1991, 1994 and 1997, which were also disproved by reality, we begin to see violence as a factor that has been practically excluded from the recent democratic development of Bulgaria. It makes sense to briefly sketch the ways in which violence was avoided in the most serious instances.

(a) Crisis of December 1989 - January 1990

The first crisis was the most dangerous, as it combined power transition, change of the nature of power itself, and ethno-cultural conflict with foreign ramifications. The opposition groups that appeared in Bulgaria in 1986 were of two types: re-active (mainly ethnic Turks who wanted the "restoration" of their birth-names - of which they had been deprived in a state-enforced campaign in 1984-5), and pro-active (mainly ethnic Bulgarians who wanted a general democratization of the regime). Despite several repressive acts of varying degree against both types of groups (there were a few casualties among the Turks), the regime did not even attempt to use violence in order to defend the status quo - and it did have plenty of opportunity to do so. This attitude led to the bloodless coup of November 1989, which catered to the demands of the ethnic majority members for democratization; a month and a half later the minority members' demands were met also, for their names were "restored". In this way the reformer communists managed to separate in time the two jobs: that of power transfer and that of inter-ethnic normalization. The third job - that of the nature of political power was approached very gradually, without letting public opinion develop a fixation over it; the reformer rulers managed to mesmerize society into believing that "all will be well" in this matter (democratic legitimization of political power) - and, in fact, things did get well following the Round Table talks and the congress that renamed "Socialist" the extant Bulgarian Communist Party. However, a month and a half proved too short a period to separate effectively the power problems from the ethnic ones; hence the anti-minority reaction of many ethnic Bulgarians from ethnically mixed regions, who were promptly organized by local communist party bosses and shipped to the capital in a general protest action. The situation came to a head when ethnic minority groups confronted the majority groups on Parliament square. It is remarkable, that this crisis was managed in a classical democratic style: all parties with a stake in the issue agreed to send representatives to an ad hoc

" Civic Committee on the National Question" , facilitated by the Chairman of Parliament, and after a four-day debate that Committee recognized the fait accompli of the name restoration - which ended the acute phase of the crisis.

(b) The Crisis of the first quarter of 1992

The second serious crisis was foreign-born and relatively simpler, as there was only one problem: the independence of Macedonia; simplicity was balanced by the fact that, given a negative development, it could have resulted in a new Balkan war. In the beginning of 1992 the European Union recognized the independence of Slovenia and Croatia; Bulgaria was more drastic, as it became the first country in the world to recognize also Bosnia-Herzegovina and Macedonia. For Bulgaria - and the Balkans - Macedonia was the hottest issue; it was feared that a Serbian occupation of Macedonia was coming ,to prevent secession; in such a case Bulgaria, officially or not, would have intervened militarily too. The Bulgarian demarche with the unprompted recognition of Macedonia intended to show that it had no aspirations towards Macedonia and that its position should not be used as an excuse for a possible Serbian occupation. Simultaneously, the powerful traditional irredentist Macedonian lobby in Bulgaria was perplexed and weakened by the ambiguous statement that Bulgaria recognized indeed the Macedonian state, but it " did not recognize the Macedonian nation" . The net result was that a historic source of tension on the Peninsula was liquidated at a minimal price in a purely political way; today, despite still open disputes over the Macedonian language and such like, nobody in the region really believes that Bulgaria could start a military aggression against its new Western neighbor.

(c) The Crisis of December 1996 - January 1997

The third was a crisis of governance. As a result of the exceptionally bad governance of the BSP executive, small groups of people began public demonstrations in the capital in December 1996; they were joined by numerous students, and after the opposition decided to head and organize protests, the situation started resembling the on-going Belgrade daily marches. The crisis reached its peak when a large part of Bulgaria cities followed suit, and a bloody clash with the police took place in Sofia (with injuries on both sides, but no deaths). In this situation the BSP could have held on to power - but only at the expense of an escalation of police brutality, which could have triggered off armed clashes throughout the land. At this junction BSP decided to hand power over to the democratic opposition, relinquishing the constitutional chances it still had. Thus, under civic and political pressure, power was given to those, who were supposed to furnish the country with a better government (actually those hopes came true); escalation of violence was avoided while all constitutional procedure was strictly adhered to.

We can infer that in all crisis situations after 1986 the Bulgarian political class had the option of violence, and despite the appeal of short-term gains refused to pay the price of social disruption and/or international repercussions. A new style of compromise and flexibility, excluding violence, has been established; its inertia would probably hold over the next 10-15 years.

ANNEX TWO

Bulgaria's Democracy: Comparative Perspective

In 1997 Freedom House published the results of the "Nations in Transit 1997" survey of 25 post-communist countries/all Balkan countries with the exception of new Yugoslavia and Bosnia-Herzegovina are included/. The survey covers the democratic and economic performances of the countries in Central Europe, Southeastern Europe and the New Independent States till December 31, 1996. Constructing a scale ranging from 1 to 7/most to least liberal/ Freedom House rates the countries in their progress in democratic and economic reforms. "The Nations in Transit 1997" survey is an excellent opportunity to evaluate the democratic process in Bulgaria in a comparative perspective.

Freedom House divides countries in the region into three broad categories: a) consolidated democratic states with market economies; b) transitional polities undergoing economic transformations; and c) repressive autocracies with statist economies. In the context of such classification Bulgaria is defined as a transitional polity undergoing economic transformation. Its rating for democratic performance is 3,81 (Bulgaria is the most democratic Balkan country with the exception of Slovenia) and its rating for economic performance is 5,38 (Bulgaria is the worst performing Balkan economy). The latest political developments in Southeast Europe "corrected" some of the ratings but at the same time they strengthen some important characteristics of the Bulgarian democracy and Bulgarian transition in comparative perspective.

It is the overperformance of democratic institutions. It is the constant trend of underperformance of Bulgarian economy, and the key finding- Bulgaria is the postcommunist country marked by the highest discrepancy between democratic achievements and economic performance.

The stressed tendency of the disbalance of the Bulgaria transition figures out three principal options for medium term political development:

- the stability of the democratic institutions can become the major factor for the successful policy of market reforms relying on the fact that there are working channels for interests representation.
- the poor economic performance can undermine the stability of the democratic institutions and as a result Bulgaria can face destabilization scenario
- Bulgaria's democracy can function "divorced", independently from the state of economy. The political and social experience of India in the last 50 years is a powerful illustration of a such an option.

The comparativist reflection on the character of the democratic regime in Bulgaria points out the discrepancy of the democratic and market performances as the major feature of the existing political system.

RANKING AND CLASSIFICATIONS: EAST CENTRAL EUROPE AND NIS

Democracy Rankings			Economy Rankings		
	Democracy	Economy		Democracy	Economy
Consolidated Democracies			Consolidated Market Economies		
Czech Republic	1.38	1.88	Hungary	1.44	1.63
Hungary	1.44	1.63	Czech Republic	1.38	1.88
Poland	1.44	2.00	Poland	1.44	2.00
Slovenia	1.88	2.38	Estonia	2.06	2.13
Estonia	2.06	2.13	Slovenia	1.88	2.38
Lithuania	2.06	2.50	Lithuania	2.06	2.50
Latvia	2.06	2.50	Latvia	2.06	2.50
Transitional Governments			Transitional Economies		
↑Russia	3.75	3.50	Slovakia	3.81	3.38
Moldova	3.81	4.00	Russia	3.75	3.50
↓Slovakia	3.81	3.38	Kyrgyzstan	4.75	3.75
↑ Bulgaria	3.81	5.38	Croatia	4.25	3.88
↓ Romania	3.88	4.63	↓Moldova	3.81	4.00
Ukraine	3.88	4.25	Albania	4.50	4.00
Macedonia	3.88	4.50	Armenia	4.75	4.00
↓Croatia	4.25	3.88	Georgia	4.75	4.13
↓ Albania	4.50	4.00	↑Ukraine	3.88	4.25
↓Armenia	4.75	4.00	Kasahstan	5.25	4.38
Kyrgyzstan	4.75	3.75	↓ Macedonia	3.88	4.50
↑Georgia	4.75	4.13	Romania	3.88	4.63
Kasahstan	5.25	4.38	Azerbaijan	5.44	5.13
Azerbaijan	5.44	5.13	↓ Bulgaria	3.81	5.38
Consolidated Autocracies			Consolidated Statist Economies		
↓Belarus	5.88	6.00	↓Belarus	5.88	6.00
Tajikistan	6.00	6.13	Tajikistan	6.00	6.13
Uzbekistan	6.44	6.25	Uzbekistan	6.44	6.25
Turkmenistan	6.94	6.38	Turkmenistan	6.94	6.38

Source:

"Political and Economic Reform in East Central Europe and the New Independent States:
 A Progress Report", Freedom House, 1997.
http://www.freedomhouse.org/NIT/intro_karatnycky.html

APPENDIX ONE:
ELECTORAL DATA

Table 2. Elections in 1991, 1992, 1994, and 1996: General Data.

	1991	1992 - I	1992 - II	1994	1996 - I	1996 - II
Number of election sections	12 454	12 605	12 611	12 696	12 675	12 678
Number of election districts	31	32	32	31	32	32
Number of voters according to electoral lists	6 790 006	6 817 914	6 859 318	6 997 954	6 837 737	6 834 538
Number of voters according to signature on electoral lists	5 699 960	5 140 449	5 204 231	5 261 040	4 302 056	4 202 590
Number of election envelops	5 694 842	5 139 891	5 206 226	5 264 448	4 317 161	4 215 145
Number of invalid votes	128 727	48 713	24 388	62 545	28 908	25 416
Number of valid votes	5 540 837	5 091 179	5 181 844	5 202 065	4 288 499	4 189 733
Percentage of invalid votes	2.26%	0.95%	0.47%	1.19%	0.67%	0.60%
Percentage of valid votes	83.87%	75.39%	75.90%	75.23%	63.14%	61.67%

Source:

"Bulgarian Elections 1990-1996: Results, Analyses, Trends",
Democratichni tradicii - Demetra, Sofia, 1997.

Table 3. Elections for the 7th Great National Assembly (first round on 10 June, second round 17 June, 1990): Distribution of Mandates

Party/Coalition	Majoritarian		Proportional		Total	
	Mandates	%	Mandates	%	Mandates	%
Bulgarian Socialist Party	114	57.00	97	48.50	211	52.75
Union of Democratic Forces	69	34.50	75	37.50	144	36.00
Bulgarian Agrarian Union	0	0.00	16	8.00	16	4.00
Movement for Rights and Freedoms	11	5.50	12	6.00	23	5.75
Fatherland Union	2	1.00	0	0.00	2	0.50
Independent candidates	2	1.00	0	0.00	2	0.50
Social-Democratic Party-NonMarxists	1	0.50	0	0.00	1	0.25
Fatherland Party of Labor	1	0.50	0	0.00	1	0.25
Total	200	100.00	200	100.00	400	100.00

Source:

"Bulgarian Elections 1990-1996: Results, Analyses, Trends",
Democratichni tradicii - Demetra, Sofia, 1997

Table 4. Elections for the 36th National Assembly (13 October, 1991): Distribution of Actual Votes and Mandates.

Party/Coalition	Actual Votes	%	Above 4%	Mandates	% of Mandates
Union Of Democratic Forces	1 903 567	34.36	45.78	110	45.80
Bulgarian Socialist Party	1 836 050	33.14	44.16	106	44.20
Movement for Rights and Freedoms	418 168	7.55	10.06	24	10.00
Bulgarian Agrarian Union	214 052	3.86	-	-	-
Bulgarian Agrarian Union (N. Petkov)	190 454	3.44	-	-	-
Union of Democratic Forces (Center)	177 295	3.20	-	-	-
Union of Democratic Forces (Liberals)	155 902	2.81	-	-	-
Confederation "Bulgarian Kingdom"	100 883	1.82	-	-	-
Bulgarian Business Bloc	73 379	1.32	-	-	-
Bulgarian National Radical Party	62 462	1.13	-	-	-
Other 28 Parties/Coalitions (below 1%)	408 625	7.37	-	-	-
Total	5 540 837	100.00	100.00	240	100.00

Source:

"Bulgarian Elections 1990-1996: Results, Analyses, Trends",
Democratichni tradicii - Demetra, Sofia, 1997

Table 5. Elections for the 37th National Assembly (18 December, 1994): Distribution of Actual Votes and Mandates.

Party/Coalition	Actual Votes	%	Above 4%	Mandates	% of Mandates
Bulgarian Socialist Party	2 262 943	43.50	51.54	125	52.08
Union of Democratic Forces	1 260 374	24.23	28.70	69	28.75
People's Union	338 478	6.51	7.71	18	7.50
Movement for Rights and Freedoms	283 094	5.44	6.45	15	6.25
Bulgarian Business Bloc	245 849	4.73	5.60	13	5.42
Democratic Alternative for the Republic	197 057	3.79	-	-	-
Bulgarian Communist Party	78 606	1.51	-	-	-
New Choice Union	77 641	1.49	-	-	-
Patriotic Union	74 350	1.43	-	-	-
Federation "Kingdom Bulgaria"	73 205	1.41	-	-	-
Other Parties/Coalitions (below 1%)	310 468	5.97	-	-	-
Total	5 202 065	100.00	100.00	240	100.00

Source:

"Bulgarian Elections 1990-1996: Results, Analyses, Trends",
 Democratichni tradicii - Demetra, Sofia, 1997

Table 6. Elections for the 36th and 37th National Assemblies: District Distribution of Party Mandates in 1991 and 1994.

District	1991				1994					
	UDF	BSP	MRF	Total	BSP	UDF	PU	MRF	BBB	Total
Blagoevgrad	5	3	2	10	6	3	0	1	0	10
Bourgas	5	5	2	12	5	3	1	2	1	12
Varna	7	5	1	13	5	5	1	0	2	13
Great Turnovo	4	5	0	9	5	2	1	0	1	9
Vidin	1	3	0	4	3	1	0	0	0	4
Vratza	3	5	0	8	6	1	1	0	0	8
Gabrovo	3	1	0	4	2	2	0	0	1	5
Dobrich	2	4	1	7	5	1	1	0	0	7
Kurdzali	0	2	6	8	2	0	0	4	0	6
Kiustendil	3	2	0	5	3	2	0	0	0	5
Lovech	2	3	0	5	3	2	0	0	0	5
Montana	3	3	0	6	5	1	0	0	0	6
Pazardzik	4	5	0	9	5	3	1	0	0	9
Pernik	3	2	0	5	3	2	0	0	0	5
Pleven	4	5	0	9	5	2	2	0	1	10
City of Plovdiv	7	3	0	10	3	6	0	0	1	10
District of Plovdiv	5	5	1	11	5	4	2	0	0	11
Razgrad	0	2	3	5	2	0	0	3	0	5
Rousse	4	3	1	8	5	2	0	0	1	8
Silistra	1	2	2	5	3	0	0	1	0	4
Sliven	3	3	0	6	5	1	1	0	0	7
Smolian	2	2	0	4	3	1	0	0	0	4
Sofia 1	9	3	0	12	4	6	1	0	1	12
Sofia 2	8	3	0	11	3	6	1	0	1	11
Sofia 3	7	3	0	10	5	5	0	0	1	11
District of Sofia	4	4	0	8	5	2	1	0	0	8
Stara Zagora	5	6	0	11	5	3	2	0	1	11
Turgovishte	0	2	2	4	3	0	0	1	0	4
Haskovo	3	5	1	9	5	1	1	1	1	9
Shumen	1	4	2	7	3	1	0	2	0	6
Yambol	2	3	0	5	3	1	1	0	0	5
Countrywide	110	106	24	240	125	69	18	15	13	240

Source:
 "Bulgarian Elections 1990-1996: Results, Analyses, Trends",
 Democratichni tradicii - Demetra, Sofia, 1997

REGISTERED DISASTERS, ACCIDENTS, AND CATASTROPHES

Year	Number (total) for the period	Losses (total) for the period		
		Material losses (lv)	Victims	Wounded
1993	34 606	578 183 701	1 394	7 831
1994	28 411	311 381 466	1 546	8 582
1995	16 350	151 539 500	1 404	8 447
1996	14 496	2 307 922 895	1 293	7 719
1997	8 337	17 944 444 000	626	3 759
Total	102 200	21 293 471 562	6 263	36 338

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