

American Investment In Bulgaria, December 1994

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Total Investment Inflow

From 1990 until the end of September 1994, sixty-nine investments of declared American origin were registered at the Ministry of Finance. Forty-three of them were made in Bulgarian Leva. The total volume of American investment is 18,662,000 USD, or 6.5% of the total foreign investment inflow to Bulgaria (in comparison, Germany invested 177,305,000 USD). The United States place fifth in terms of invested capital in Bulgaria.

Thirty-eight of the declared American investments consisted of 50,000 Leva, or less, each. American investors bought two Bulgarian enterprises. One of the transactions (Magnetic Heads) was a complete failure. It had a negative effect on the confidence of the Bulgarian privatization authorities in American investors. The case was broadly discussed in the mass media.

American investment in Bulgaria is insignificant in size and strange in its sectoral structure.

Sectoral Structure

There are no American investments in key branches of the Bulgarian economy. Coca-Cola, American Standard Inc., Kraft General Foods, and Bulgarian-American Foods (Struma Food Co.) are the biggest investments in industry.

AMERICAN INVESTMENT COMPANIES BY SECTORS

SECTOR NUMBER OF COMPANIES

Trade 32

Consultancy 14

Finance 4

Industry 4

Computer Servicing 4

Communications 2

Tour Operators 2

Insurance 1

Medical Services 1

Publishing 1

Interpretation 1

Agriculture 1

Other 4

TOTAL 69

Note: The investments made by the BAEF are not registered as investments because, according to the Bulgarian Foreign Investment Law, only long-term investment is considered as such.

As seen from the table above, the service sector rather than industry is the most important area of activity for American investors in Bulgaria.

Is Bulgarian Less Attractive to American Companies Than the Other Central and East European Countries?

The data for the recent EUROSTAT conference on foreign investment shows that American investments are widely present only in few countries in the region. Unfortunately, Bulgaria does not appear to be a priority country for American investment. One of the reasons might be the limited size of the Bulgarian market. American investors prefer larger markets.

In Romania American companies have invested 107 million USD. The three largest investors are Coca-Cola with 32 million USD, Amoco with 17 million USD, and Colgate Palmolive with 17.4 million USD.

In the Czech Republic American investments comprise 25 percent of the total amount of foreign investment, ranking second after Germany with 627.9 million USD.

In Hungary the biggest American investor is general Electric - Tungsram.

In Poland American companies make up the largest part of foreign investment. Coca-Cola invested 235 million USD, IPC - 193 million USD, the Polish-American Enterprise Fund - 180 million USD, and Curtis - 100 million USD.

In the other Central and East European countries American investments are insignificant.

The data provided indicate that Coca-Cola is the biggest American investor in Central Europe. The other big investors also tend to be the kind of companies that operate only on the domestic consumption market.

Conclusions

_ Many American investors have not registered their investments, thus violating the Foreign Investment Law. Article 16 Paragraph 2 provides for a fine of 10% of the amount of unregistered investment. Bulgarian authorities have not yet undertaken steps to apply the Foreign Investment Law in this part.

_ There are very few real investments from the United States to Bulgaria. Institutional investors rather than real investors prevail. Higher interest is expressed by multinational companies, for which Bulgaria is simply a 'link in the chain'.

_ American investors are connected primarily with the domestic Bulgarian market and only few of them contribute to Bulgarian exports.

_ The experience of the Foreign Investment Commission has proven an explicit interest amongst American companies visiting Bulgaria to invest here. They come mostly through the prominent consultancy companies.

The Main Obstacles and Reasons for the Current Situation are:

_ The lack of interest on the part of American investors, rather than domestic obstacles;

_ The lack of promotional activities that could generate such interest;

_ The lack of special guarantees and mutual funds for foreign investment coming from the USA;

_ Too many American institutions and consultancies; improper investment strategy; a lot of mistakes come from poor legal advice;

_ Insufficient efforts of the Bulgarian side to deal with the 'bad cases'.