

**Cluster Policies in Bulgaria: European integration, post socialist dynamics, and local level initiatives.**

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## Cluster Policies in Bulgaria: European integration, post socialist dynamics, and local level initiatives.

### Abstract

This paper investigates public policies aimed at developing industrial clusters in Bulgaria by looking at initiatives at supernational, national and local levels. It argues that cluster policies have been paths shaping actions in the postsocialist transformation of Bulgaria. In doing so, it explores answers to the following research questions: What are the connections between policy implementation, institutional changes, and economic transformation at the national and local levels in Bulgaria? What is the role of the European Union in shaping these changes? What is the role of local actors in shaping the policies and development trends within one specific cluster? Through the analysis of government policies, data, and empirical research, this paper shows how different groups (foreign consultants, local elites, and national administrators) have understood the concepts of 'clusters' and 'industrial districts' in different ways, then used these concepts as a tool to access foreign resources. In doing so, it highlights both similarities and differences in cluster policies at the three scale levels considered.

**Keywords:** Industrial clusters, Bulgaria, post-socialism, European Union.

### 1 Introduction

It is well known that ensuring 'regional competitiveness' has become a policy priority in both the developed and developing world, one of the most sought after ways to foster regional competitiveness is the development of 'industrial clusters.' Policy makers have attempted to strengthen these "dense concentrations of interdependent small and medium enterprises in a single sector and in auxiliary industries and services" (Dunford: 2006, p. 27). In postsocialist Europe, cluster policies acquired a peculiar quality as instruments of transition from planned to market economy. Specifically, in Bulgaria policy makers and foreign donors have organized meetings and conferences on the development of industrial clusters, such as the *National Seminar on the Development of Clusters in Bulgaria* (National Seminar: *electronic document*). Furthermore, policy projects emerging from these meetings have received media coverage (*Sofia News Agency*, 11-12-2004). The increased attention led entrepreneurs to develop organizations aimed at strengthening clusters. For example,

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3 Bulgarian ICT Cluster provides a “platform for open exchange of information and ideas  
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Bulgarian ICT Cluster provides a “platform for open exchange of information and ideas equally accessible to both small and big companies, and young and experienced professionals” (Bulgarian ICT Cluster: *Electronic Document*).

This paper investigates the public policy dimension of clusters in Bulgaria, looking at policy initiatives at the transnational (EU), national and local levels. It analyzes the ways in which cluster policies are enacted in a particular context by real actors who both conceptualize and implement these policies. It argues that policies are paths shaping actions in the development of Bulgarian districts. In doing so, the authors suggest that the interactions between the decisions of firms and institutions (the government, but also entrepreneurial associations, NGOs and financial institutions) must be taken into account when analyzing the development of Bulgarian districts. Specifically, the paper explores answers to the following research questions: What are the connections between policy implementation, institutional changes, and economic transformation at the national and local levels in Bulgaria? What is the role of the European Union in shaping these changes? What is the role of local actors in shaping the policies and development trends within one specific cluster?

To provide answers, the paper draws on empirical research conducted in 2005-2006, consisting of twenty eight, semi-structured, elite interviews with government officials, opinion leaders, and business managers or owners.<sup>1</sup> The research snowballed from an initial contact with an NGO to local firms in Rousse. First, the authors interviewed the Foundation for Entrepreneurship Development (FED), an NGO specialising in small business, local economic development and public administration development research, consultancy and training, monitoring and evaluation (FED *electronic document*). FED provided the initial

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3 overview of cluster policies in Bulgaria and contacts with the national level government  
4 officials, who were working on cluster policies. These officials informed us that they  
5 developed some projects with foreign partners. The authors interviewed one of these partners  
6 – in the Italian embassy – to acquire independent information. FED also helped to choose  
7 Rouse as a case study: the city of Rouse had been the first cluster officially recognized by  
8 the Bulgarian government, and among the first quoted in the media (*Dnevnik a.m.* 04-29-  
9 2004). In Rouse the authors interviewed local officials and an NGO involved in the  
10 development of the cluster: the Business Support Center, BSC Rouse (*BSC electronic*  
11 *document*). BSC Rouse provided contacts for interviews with ten local entrepreneurs.  
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24 Building on information from the interviews, a three stage narrative is developed.  
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26 First, the literature on industrial districts is reviewed, focusing on the innovation and policy  
27 dimension of the districts. Second, the interactions between supernational (EU) and national  
28 level policy initiatives on cluster development in Bulgaria are analyzed. Third, the initiatives  
29 of the local elite in one specific cluster in the textile and clothing sector – the city of Rouse  
30 in Northern Bulgaria - are considered. In the end, an argument emerges that cluster policies  
31 in Bulgaria are understood differently from the ones developed in Brussels. EU officials have  
32 been aiming primarily at fostering cutting edge innovation to compete with the US. Bulgarian  
33 officials have been using cluster policies primarily to attract resources from foreign donors,  
34 allowing them to use clusters as a tool for economic reconstruction. Such a shift of emphasis  
35 allows this paper to problematize the role of innovation in a postsocialist context.  
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## 2 Theoretical framework

The literature on clusters/industrial districts emerged in the 1980s, in the aftermath of a world-wide economic recession that led to the crisis of Fordism. While large firms, mass producing standard items, were struggling to stay competitive, networks of small firms were being increasingly successful, thanks to their ability to produce flexibly in small batches. Such networks were usually clustered in specific regions throughout the developed world. Therefore, scholars began to argue that that “there might be something fundamental that linked late 20th-century capitalism to regionalism and regionalization” (Storper 1997, p. 3). A whole literature developed to investigate the mechanisms of flexible production and to apply them to regions very different from one another.

Classic works on flexible production identified the following reasons for the success of clusters/industrial districts: the relation between firms and institutions, the containment of transaction costs, the combination of rivalry and cooperation among firms, and the shared territorial identity and cultural values of each district (Marshall 1919, Piore and Sabel 1984, Scott and Storper 1987, Porter 1990, Becattini 1979, Markusen 1996). Several lines of work developed from these classic explanations of clusters. Among them, two topics are particularly relevant to this paper: first, the focus on innovation and knowledge economies in the literature, and second the scholarly debate on whether or not, and how, policy interventions should attempt to develop industrial clusters.

To this day, the focus on knowledge and innovation remains unchallenged. Scholars analyzed the development of high tech regions, highlighting the virtuous cycles of development between research institutions, companies and infrastructures (Perrin 1993). The two most investigated high tech regions were Silicon Valley and Route 128 in the USA

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3 (Markusen 1986, Saxenian 1994). Even when the focus was on regions specializing in  
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5 traditional sectors, innovation was considered one of the most important characteristics of the  
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7 cluster. Works on Italian industrial districts fit into this category (Becattini 2003, Brusco  
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9 1986, Rabellotti et al. 2009). Michael Storper broadened the argument about innovation and  
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11 regions, claiming face to face interactions shape innovation and development and are bred at  
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13 the local level; therefore, specific regions are characterized by specific trajectories of  
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15 development (1997). Similarly, Child and Faulkner analyzed the relations between firms  
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17 from the prospective of interpersonal relationships, noting that firms decide where to locate  
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19 based on the relations among key individuals (1998). Therefore, sustained social  
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21 relationships are pivotal to both firms' agglomeration and innovation. A whole literature  
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23 developed around the concept of social capital, or the "social structure that enable social  
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25 actions" (Dolfisma 2008: 19), showing that social action happens at multiple levels  
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27 Granovetter and Swedberg 2001, Bourdieu 1986, Putnam et al. 1993). Specifically,  
28  
29 innovation systems depend on social structures encompassing nations, regions, and sectors  
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31 (Freeman 1987, Nelson 1993, Cooke et al. 2004 Malerba 2004). More recently, evolutionary  
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33 economics and economic geography have influenced works on innovative clusters in which  
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35 learning and knowledge are key elements in the change of the economic system (Breschi and  
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37 Malerba 2005: 3, Martin 2008).

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46 The fascination with Silicon Valley and innovation, and the vision of self sustaining  
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48 successful regional economies, generated countless initiatives of cluster development (Porter  
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50 2007, Wolfe and Gertler 2004). Government agencies at all scales implemented cluster  
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52 projects: the World Bank, OECD, the EU, and national and regional governments  
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54 (Lundequist and Power 2002, Wolfe and Gertler 2004, Fromhold-Eisebith and Eisebith  
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3 2005). Scholars responded in various ways to policy makers' interest in clusters, from direct  
4 involvement in policy making, to utter criticism, to more recent works aimed at improving  
5 cluster policies. The latter tested theoretical assumptions and refined methods of analyses.  
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10 Policy making and scholarly analyses have been inter-related at least since Michael  
11 Porter's work in the early 1990s (Porter 1990). His firm, Monitor Consulting, pioneered  
12 cluster studies, and his mapping exercises were important in raising the awareness of policy  
13 makers in North America and the European Union (Benneworth et al. 2003: 517, Cumbers  
14 and MacKinnon 2006: x, EU Clusters Observatory No date). Several papers were dedicated  
15 to 'putting Porter into practice' as scholars attempted to identify the characteristics of  
16 successful cluster policies and their dynamic nature (Porter 1998a, 1998b, Hofe and Chen  
17 2006, Lundequist and Power 2002, Amin and Thrift 1994, 1995, Cooke and Morgan 1998).  
18 Proponents of cluster policies have highlighted their flexibility, showing that they can be  
19 implemented to revitalize old industrial regions, as well as to develop agricultural peripheries  
20 in the Global South (Altenberg and Maeyer-Stamer 1999, World Bank 2000). Many  
21 economic geographers have argued that their discipline should engage public policy, and  
22 especially regional policies (Brusco 1990, Henry et al. 2001, Markusen 2003, Martin, 1999,  
23 Peck 1999, Pollard et al. 2000).  
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43 Geographers, while engaging policy, have also been overtly critical of the vagueness  
44 of the cluster concept and the ambivalence of cluster policies. Analyzing the Welsh  
45 economy, John Lovering noticed that concepts such as clusters have become very influential  
46 in policy-making to the point of being a "misleading narrative of regional development"  
47 (1999: 381). Ann Markusen made similar critiques, labeling industrial districts and clusters  
48 "fuzzy concepts" (2003). Martin and Sunley have criticized the cluster approach, stating that  
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3 “rather than being a model or theory to be rigorously tested and evaluated, the cluster idea  
4 has instead become accepted largely on faith as a valid and meaningful ‘way of thinking’  
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6 about the national economy” (2003: 9). However, they also pointed out that vagueness is also  
7  
8 one of the reasons why the idea of clusters is successful among policy makers, because they  
9  
10 can “use the idea in different ways to suit their own purposes” (p. 10). Wolfe and Gertler  
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12 distinguished two lines of cluster research, ‘analytical’ and ‘prescriptive.’ While the first  
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14 aims at providing “insights into the forces that contribute effectively to cluster development,”  
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16 the second approach tends to “work cross-purposes, with the policy goals predetermining the  
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18 analysis, rather than the other way around” (2004: 1072).  
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25 More recent works re-evaluated and improved cluster concepts and policies.  
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27 Empirical work tested the cluster concept, trying to determine whether or not clustering had  
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29 positive effects on firms’ performances. Findings were not clear cut: Lubinski attributed  
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31 weak advantages to clustering (2003). Others evaluated the cluster concept more positively  
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33 (Boschma and Weterings 2005, Angel 2002, Scott 2002, Scott and Storper 2003). All  
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35 together, these studies brought a broader perspective to the analysis of clusters. They  
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37 highlighted that infrastructure development, sector level conditions, national policies, and  
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39 transnational links influence clusters’ firms (Keeble and Nachum 2002, Turok 2004, Parr et  
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41 al. 2002). At the same time, they put less emphasis on the internal dynamics of clusters (Coe  
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43 and Townsend 1998, Gordon and McCann 2005).  
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49 Policy oriented studies benefited from the broader perspective on the role of clusters  
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51 in regional and national development. Clark, Palaska, Tracey and Tsampra argued that  
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53 cluster policies should be part of a larger set of development policies tackling regional and  
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55 national issues (Clark et al. 2004). In some cases, cluster policies proved to be successful;  
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3 those policies were structured as ongoing conversations among stakeholders. As a result,  
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5 stakeholders developed a shared vision of the future of the cluster, while some kind of  
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7 management implemented it (Lundenquist and Power 2002). Others argued that the most  
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9 effective cluster policies target human resources and strengthen the pool of skilled  
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11 knowledge workers (Wolfe and Gertler 2004), and in doing so increase someone's likelihood  
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13 to become an entrepreneur (Feldman et al 2005: 132).  
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17 The above mentioned English language literature on clusters is accompanied by  
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19 recent developments within other scholarly traditions. In Bulgaria, interest in policies aimed  
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21 at insuring firms' competitiveness plays an important role in the literature on clusters. In one  
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23 of the earliest papers on clusters written in Bulgarian, Krasen Stanchev analyzed a World  
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25 Bank funded project for the establishment of industrial clusters (1998). Later, a team of  
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27 American and Bulgarian scholars published a paper in English in *Problemy na Geografiata*  
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29 – the leading Bulgarian geographical journal (Begg et al. 2005). They compared Haskovo in  
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31 South Eastern Bulgaria with Emilia Romagna, Italy. They argued that cluster policies  
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33 constituted too often an attempt to transfer a model that has developed spontaneously in a  
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35 few key areas of Italy, the USA and Germany without taking into account local specificities  
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37 and trajectories. However, the majority of literature in Bulgarian language focused on  
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39 'importing' the cluster model from abroad. Darina Pavlova compared three clusters in the  
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41 wine sector, two in Italy and one in Chile. In doing so, she aimed at improving the diffusion  
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43 of know-how among Bulgarian producers (2007). Radeva and Naneva developed a three step  
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45 model for the identification of industrial clusters, arguing that "identification is the first step  
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47 in the development of clusters," in other words, identification is the first step for policy  
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49 interventions (2007: 41). Along similar lines, Kanev and Khristova analyzed both the  
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3 processes of development of clusters in Bulgaria and the special features of clusters formally  
4 recognized and supported by the government (Kanev and Khristova 2006, Khristova 2006).  
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8 Indeed, the role of government plays a key role in the Bulgarian literature.  
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11 In sum, the focus on innovation in the cluster literature gives strong reasons for  
12 practitioners and some academics to advocate for cluster policies. However, some scholars  
13 objected to the vagueness and ambivalence of cluster concepts. Thanks to those critiques, the  
14 understanding of clusters has changed. In the 1980s and 1990s scholars emphasized local  
15 knowledge and local institutional arrangements; more recent work has regarded clusters as  
16 open systems within the global economy, often resulting in more effective policies. Most  
17 recently, the European Union put in place a framework for cluster policies. The following  
18 sections analyze how policy makers in Bulgaria exploited the vagueness of the cluster  
19 concepts, reinterpreting and adapting the EU policies to their own local conditions.  
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### 34 **3 The supernational level: cluster policies in the EU**

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36 Some EU member states have implemented cluster policies for a long time, for  
37 example, Italy's Emilia Romagna region had policies aimed at supporting its industrial  
38 districts since the 1980s (Brusco 1990). Since the late 1990s the EU itself funded individual  
39 clusters projects within the member states and the accession countries through its grant  
40 schemes (VICLI no date). However, an EU level cluster strategy was not adopted until 2006,  
41 when it became one of nine components of the Union-wide innovation policy (EU  
42 Commission 2006). The fascination with the Silicon Valley model of constant endogenous  
43 innovation is obvious in official statements of the EU such as the following: "while poorer  
44 countries can grow by investing in productive capacity and adopting technology developed  
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3 elsewhere, richer countries need to move the productivity frontier and introduce new  
4 products, services, or ways to serve customer needs to sustain their prosperity. To this end,  
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6 clusters can be instrumental” (European Commission 2007: 7). Even more strongly, the EU  
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8 Cluster memorandum stated that “in modern competition, all clusters must be innovation  
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10 clusters (High Level Advisory Group on Clusters 2007).  
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15 International competition and globalization are explicitly mentioned as reasons why  
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17 the EU innovation policy was adopted (European Commission 2008: 4). In this regard, the  
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19 EU cluster strategy and policies are strongly motivated by the US experience. A report of the  
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21 European Commission stated that “Overall the data analysed shows that Europe lags behind  
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23 the United States in terms of cluster strength, both from a regional and industry perspective”  
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25 (European Commission 2007: 12). EU officials lamented that the US had better statistical  
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27 data on clusters (ibid.). Moreover, the EU decided to fund transnational links among clusters  
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29 because “clusters in the EU cannot rely merely on the natural forces of agglomeration to  
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31 attract talent and other assets in the same way, for instance, as US clusters can” (European  
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33 Commission 2008: 7).  
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39 As a part of the effort to promote innovative and competitive clusters, the EU decided  
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41 to fund the EU clusters observatory, a research center specifically dedicated to the  
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43 development of statistical methods and mapping tools for clusters (EU Clusters observatory  
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45 no date1). Mapping provides a tool for policy makers at all levels to identify both the clusters  
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47 themselves and the needs of policy intervention. In doing so, the EU clusters observatory  
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49 pushed further national initiatives, such as the pioneering work by Fabio Sforzi and ISTAT to  
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51 map the Italian districts (Sforzi 1990). At the same time the exercise of mapping clusters has  
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53 had a deeper significance. Geographers pointed out that mapping is a tool of modernity,  
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3 which provides a tangible and 'scientific' representation of space (Pickles 2004).  
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5 Historically, mapping Europe coincided with claiming it as the space of a superior  
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7 civilization (Biggs 1999, Wolff 1994). Similarly, today's exercise of mapping clusters makes  
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9 them 'tangible,' and a legitimate object of policies, as shown by the EU level dynamic  
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11 electronic maps of clusters now available on the web (EU Observatory no date2).  
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15 In sum, in recent years the European Union embraced clusters as a legitimate tool of  
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17 economic policy by developing policy guidelines and analytical mapping tools. The goal of  
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19 these policies and tools is straightforward: to promote innovation, to imitate the Silicon  
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21 Valley across European regions, and to withstand economic competition from the US and  
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23 other advanced economies.  
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#### 29 **4 The national level 1: clusters, postsocialism and economic re-development in** 30 31 **Bulgaria**

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33 Bulgaria implemented cluster policies as a part of a broader effort to join the  
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35 European Union in 2007. The EU accession criteria demanded democratic institutions and  
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37 sound market economies; in Bulgaria, cluster policies were one of the tools to build a sound  
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39 market economy after the collapse of state socialism. Therefore, cluster policies are part of  
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41 the dramatic changes of post socialist transformation.  
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46 The experience of postsocialism makes Bulgaria profoundly different from the core of  
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48 the European Union. Officials in Brussels conceive the EU as an economic superpower;  
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50 therefore, they feel cluster policies should ideally imitate the Silicon Valley, promoting  
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52 cutting edge innovation and helping EU members compete with the US. However, the  
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54 Silicon Valley model was not the best option for Bulgaria. At the periphery of the European  
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3 Union, Bulgaria lost many high tech industries along with Communism. It rebuilt industrial  
4 production by importing technology and capital and often shifting towards lower tech  
5 manufacturing. Therefore, endogenous development of cutting edge innovation was clearly  
6 not the predominant technological regime needed in Bulgarian regions. Bulgarian officials  
7 and entrepreneurs had to use clusters differently from how they were understood in Brussels.  
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11 In the early to mid 1990s, Bulgaria began a very difficult postsocialist transformation.  
12 During that time export markets were lost, prices on the internal market soared, and relations  
13 along the supply chains became unreliable (Pickles 1993 and 2002). The social consequences  
14 of transition were dramatic, especially in the rural areas, where Bulgarians experienced mass  
15 unemployment and disruption of social services and infrastructures (Pickles 1998).  
16 International financial institutions blamed slow reforms and persistent State interventionism  
17 in the economy for the lack of success of Bulgarian transition (EBRD 1999). However, true  
18 reforms came in the late 1990s that brought about a solid economic growth of 4% to 6% per  
19 year starting in 1998 (Table 1).  
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36 A combination of two issues led to such a shift. First, the prospect of EU membership  
37 played a major role. The European Union actively leveraged liberal democratic reforms after  
38 Bulgaria signed the pre-accession agreement in June 1995 (Vachudova 2005). In turn, liberal  
39 democratic reforms led to stability, improved transparency, and rule of law; those are the  
40 preconditions to the attraction of foreign direct investments (IMF 2003: 18; Henisz: 2000).  
41 Second, after experiencing a financial crisis, in 1997 a new Bulgarian government reached an  
42 agreement with the International Monetary Fund, and comprehensive economic reforms were  
43 launched (OECD 1999: 7). The reforms included drastic measures to cut state spending,  
44 contain inflation, peg the local currency to the Euro, and open up the economy to foreign  
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3 investments. Those reforms were successful, and from 1997 to the financial crisis of 2008  
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5 foreign direct investments in Bulgaria grew steadily (Bandelj 2008: 90).  
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8 As a consequence of transition, several communities experienced shrinking  
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10 employment and output in high tech manufacturing, because foreign investments were  
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12 initially more involved in low tech sectors. For example, the chairman of the Chamber of  
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14 Commerce and Industry of Rousse told the following story:  
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18 There is a factory producing electronics. Until 1989 it employed one thousand people; now it  
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20 employs only one hundred. There is another factory. ... From 1981 to 1991 they produced  
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22 systems that control the movement of metal-cutting tools ... which requires a high level of  
23  
24 technology. .... Now they produce a more limited quantity of electro-technical products:  
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26 lamps, switches and the like. They went through a diminishment in the technological,  
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28 employment and production levels (Interview Chairman, Rousse Chamber of Commerce and  
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30 Industry: 2005-11-08).  
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33 His experience is related to stories told by foreign investors, such as Miroglio, one of the  
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35 largest investments in the textile sector in South Eastern Europe:  
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39 In Bulgaria and Romania industrial production is developing where foreign capital and know  
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41 how are coming, at least in the 90% of cases (interview Country Manager, 'Miroglio' 05-17-  
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47 Very often, the survival of industries depended upon foreign investments, and  
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49 especially in the early phases of transition, foreign investors were more interested in low tech  
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51 industries. Not only Bulgaria, but most of Central Eastern Europe received considerable  
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53 investments in low tech and low wage sectors. The textile and clothing industries provide  
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55 well researched examples in which foreign investors initially preferred to outsource to low  
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57 end production and low tech jobs. Only in the late 1990s did they begin to outsource the  
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59 higher end and more high tech activities (Pickles 2002, Pickles 2006, Pickles et al. 2006).  
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3 Indeed, a report of the World Bank argued that post Socialist Europe as a whole needed  
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5 larger amounts of foreign direct investments in cutting edge sectors (Broadman 2006).  
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8 Notwithstanding the World Bank argument and the goals of Brussels, a technological  
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10 regime based on import of technology is not incompatible with the development of clusters.  
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12 Literature has analyzed several successful clusters throughout the developing world in which  
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14 firms imported technology from their buyers: the jeans cluster in Torreon, Mexico, the  
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16 footwear district of Sinos Valley, Brazil, and the electronics cluster in Taiwan (Bazan and  
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18 Navas-Aleman 2004, Bair and Gereffi 2001, Guerrieri and Pietrobelli 2004). Therefore, even  
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20 though Bulgaria was clearly not in the best condition to develop clusters modeled upon  
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22 Silicon Valley, the Bulgarian government's attempt to strengthen them has not been  
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24 necessarily misplaced.  
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### 34 **5 The national level 2: policy processes**

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36 Cluster policies developed by the Bulgarian government are a blend of external inputs  
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38 from the European Union with local experiences and cultural understandings. Specifically,  
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40 the conceptualization and the resources depended upon the integration into the European  
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42 Union, while the implementation was influenced by the post socialist experience of local  
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44 officials. The concept of clusters was first introduced in Bulgaria in the late 1990s when  
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46 think tanks implemented projects financed by foreign donors (Stanchev 1998). One of those  
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48 think tanks, the Foundation for Entrepreneurship Development, was active in training state  
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50 officials on the concept of clusters (Interview chairman of the executive board, FED: 10-26-  
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52 05). By 2003, the then Minister of the Economy, Lidya Shulieva had begun to show support  
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3 for the cluster concept (Interview high level official, Ministry of the Economy and Energy:  
4 05-23-06). Gradually, interest of the national government in cluster policies attracted the  
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6 stronger involvement of large international donors, specifically the PHARE program from  
7  
8 the European Union (now completed) and the United States Aid Agency, USAID. As a  
9  
10 result, by 2006, the Ministry of Economy and Energy had established fourteen industrial  
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12 clusters, and attracted funds from the PHARE program of the European Union to finance  
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14 development initiatives within the clusters (see table 2 and map 1).  
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20 Within the Ministry of Economy and Energy, the Small and Medium Enterprises and  
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22 Entrepreneurship Department took charge of the so called 'cluster initiatives.' These  
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24 'initiatives' consisted of a joint effort of the Ministry, NGOs, branch organizations and  
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26 foreign donors. In practice, teams of consultants implemented 'cluster initiatives' consisting  
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28 in two projects financed by the EU sponsored PHARE program: the first was aimed at  
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30 identifying potential clusters, and the second at financing the clusters themselves (Murray  
31  
32 2005). Overall, this is a top down approach: the Ministry of the Economy and Energy  
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34 actively promoted the idea of clusters to businesses, while attempting to organize clusters on  
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36 a bureaucratic basis. A high level official of the Ministry of Economy and Energy described  
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38 the government's effort as follows:  
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46 The topic [of the meetings between the ministry and business representatives] was always the  
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48 idea of clusters - what are the advantages and requirements in the EU context - and presented  
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50 the idea as one of the means to increase competitiveness of our firms in the context of the EU  
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52 ....At this point, 'constituted' clusters means that firms met and signed a memorandum of  
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54 understanding to co-operate in the cluster initiative. 'Potential' cluster means that they are still  
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56 thinking about it (Interview high level official, Ministry of the Economy: 11-14-05).  
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61 In a nutshell, this interview points to an attempt by the ministry to develop a cooperative  
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63 attitude of some sort within the private sector, which needed to be formalized through  
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3 memorandums of understanding in order to access the money provided by the European  
4 Union. It also pointed to the EU as the real driver of cluster policies. The grants from EU  
5 sponsored programs were presented as much needed resources to allow the Bulgarian  
6 economy to prosper in the competitive EU market.  
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13 The consequences of the projects were threefold. First, following the objectives of the  
14 European Union, clusters were mapped and formally established through memoranda of  
15 understanding between the Bulgarian government and the shareholders of each cluster (Table  
16 2 and Map 1). Second, funds from foreign sources were injected in the local economies,  
17 aimed at changing both the public and the private sectors in the recipient 'clusters.' Third, the  
18 actors involved reworked the very concept of 'cluster' according to their needs and the  
19 framework of the post socialist experience.  
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29 The injection of funds in the Bulgarian economy achieved more than supporting  
30 specific agencies and business associations (see Figure 1 and PHARE 2003 for lists of  
31 beneficiaries). Indeed, the implementation of these cluster projects has been part of a broader  
32 transformation of local governments. Specifically, the grant writing process seems to be an  
33 important agent of change, due to the fact that all these funds are dispersed through grants.  
34 The need to make successful applications for these grants has been forcing the recipient  
35 agencies in Bulgaria and elsewhere to develop a new kind of profession, namely project  
36 managers. Along with these changes, new power relations have emerged within the  
37 institutions. A high level State official described these changes as follows:  
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53 I worked in this region since 1998. In this period there have been two important changes in the  
54 attitude of the administration. First, administrators had to learn that whatever they do with  
55 public funds they have to follow the procedures, while in the old days the mayor used to have  
56 the final word on the use of public funds, which is not possible anymore, since there are strict  
57 procedures to get EU funds. Second, most of the regional authorities understood the need of  
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3 having at least one person to manage EU projects (interview Directorate for Technical Co-  
4 operation and Management of Regional Plans and Programs of the North Central Region,  
5 head, 11-05-2005)  
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9 This interview excerpt points to a systematic role of EU funds throughout Eastern Europe  
10 that goes way beyond the implementation of single projects. By attaching conditions to the  
11 disbursement of the grants, and by forcing the heads of the recipient agencies to be  
12 transparent and accountable for the use of their budgets, EU programs are changing the  
13 nature of State institutions. In doing so, cluster policies are a small component of a broader  
14 trend of post-socialist transformation. While in the 1990s the most visible structures of  
15 socialism (namely, the party states and the high level politics) were dismantled, in the 2000s  
16 EU funds are changing the less visible, but deeply engrained in society, structure of state  
17 bureaucracies.  
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21 The reworking of the concept of 'clusters' depended upon cultural understandings  
22 developed during the Socialist experience. Particularly many entrepreneurs and state officials  
23 involved in cluster policies have drawn a parallel between the old socialist *stopanski*  
24 *obedineniia* (production unions) and the new, capitalist clusters (Interview chairman,  
25 Chamber of Commerce of Rouse: 11-18-2005 and Interview high level official, Ministry of  
26 the Economy<sup>1</sup>: 11-14-05). Production unions were administrative structures aimed at  
27 guaranteeing interfirm relations in absence of a market economy. Because cluster policies  
28 stress the importance of inter-firm co-operation among firms belonging to the same sector  
29 and links with the local administration, clusters themselves are perceived by some as  
30 production unions without a director (ibid). However, the perceived similarity between  
31 'industrial districts' and '*stopanski obedineniia*' has been identified as an obstacle to the  
32 diffusion of cluster policies. Both local and foreign policy makers pointed out clusters are  
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3 resisted because of their 'savoir of communism' (Interview Representative of Emilia  
4 Romagna in Bulgaria: 05-26-06).  
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8 Those differences in cultural understandings and policy applications between the EU  
9 core and the new Eastern European member states are not limited to clusters policies in  
10 Bulgaria. The geographical literature has provided several cases of policies and underlying  
11 concepts that were transformed when 'imported' from the West by post socialist elites. For  
12 example, Sonia Hirt argued that Bulgarian authorities managed to shift the meaning of  
13 'regionalism' quite significantly from the original agenda established in Brussels (Hirt 2007).  
14 'Civil society' was similarly transformed (Staddon and Cellarius 2002). Unfortunately,  
15 scholars have not yet attempted to theorize the re-articulation of 'Western' modernizing  
16 concepts in the postsocialist context. While inviting the scholarly community to further  
17 research this topic, we suggest that the cluster concept has changed because of: path  
18 dependency and the legacy of socialism, relations among policy stakeholders, and contextual  
19 aspects such as macroeconomic policies.  
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36 In sum, there is both continuity and friction between the ways in which clusters are  
37 perceived at the EU level and in Bulgaria. The most important elements of continuity are the  
38 effort of mapping clusters, and the general structure of cluster policies. The most important  
39 differences are due to the conditions of the local economy and to the legacy of socialism. All  
40 these instances contributed to frame a grassroots 'cluster initiative' in Rousse, a medium sized  
41 city in Northern Bulgaria, where a far sighted local leadership was able to effectively boost  
42 the local economy.  
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55 <Table 2 here>  
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6 <Figure 1 here. Title: Clusters in Bulgaria  
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#### 8 9 10 **4 The local level: a cluster initiative in the textile district of Rousse**

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12 At a first glance, Rousse is a typical example of the postsocialist transformation of  
13 Bulgarian communities: Since 1989, it experienced the loss of some high tech industries, a  
14 shift from industrial production to services, a drastic reduction in size of the industrial firms  
15 and a shift from heavy to light industry (table 3). However, since the early years of the  
16 introduction of the cluster concept in Bulgaria, the media has identified Rousse as a textile  
17 ‘cluster’ (*Dnevnik*, 04-29-2004). In 2006, the Fashion Mercury – the annual prize for fashion  
18 business awarded by the academy of fashion – was held in Rousse, acknowledging that  
19 “Rousse is the pearl in the crown of the Bulgarian fashion industry” (Almanac of Bulgarian  
20 Fashion: *electronic document*). Notwithstanding that the textile and clothing industry  
21 accounts for only 6% of the GDP and 12% of employment in Rousse, it is the only industrial  
22 branch that has expanded its employment share since socialist times (source: Rousse  
23 Chamber of Commerce and Industry).  
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43 <Figure 2 here. Title: Rousse region: Unemployment Rate by Municipality>  
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50 Foreign buyers have been very influential in establishing a textile cluster in Rousse,  
51 because they encourage both innovation and inter-firm cooperation (source: BSC Rousse).  
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53 Specifically, foreign contractors encourage local producers to work together to meet buyers’  
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3 demand; as a consequence, the approximately one hundred and fifty small to medium  
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5 clothing enterprises in Rousee have to establish thick relations to exchange technology and  
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7 expertise. The owner of a large firm summarized this process as follows:  
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12       Very often, one buyer works with two or three firms, and these firms have contacts with each  
13       other to meet the requests of the buyer, and they exchange orders very often. The buyer knows  
14       about these exchanges, and he encourages them. Usually these good relationships are long  
15       term (Interview Elf Super Co/Ltd, entrepreneur, 11-10-2005).  
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19 This interview highlights that the role of foreign buyers in the economy of Rousee goes well  
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21 beyond providing a stable market (but low profit margins) to local producers, because these  
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23 buyers affect the structure of inter-firms relations within the Rousee region.  
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26       Overall, multiple conditions have co-occurred in Rousee to enable the start up of  
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28 firms as well as the horizontal linkages that give Rousee its district character. For example,  
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30 the owner of Sunset Fashion, a firm employing twenty five to thirty people (active since the  
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32 mid 1990s) highlighted that a) foreign buyers are a key component of her business, because  
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34 they guarantee stability and larger volumes than the internal market and because they  
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36 introduce new techniques; b) intermediaries are important in establishing connections with  
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38 foreign buyers, while wholesalers allow her business access to the international market; c)  
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40 the presence of the Business Support Center has allowed both an access to cheap rent in the  
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42 incubator and the opportunity to lease contracts for new machines. Among these conditions,  
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44 the establishment of the 'Business Support Center for Small and Medium Sized Enterprises –  
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46 Rousee' has been a key element in developing the cluster. It did so by introducing a more  
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48 systematic form of inter-firm cooperation that has been directly inspired by one of the best  
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50 known examples of clusters - the so called 'industrial districts' of the Italian region Emilia  
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3 Romagna. Ms. Katia Goranova, founder and executive director of BSC-Rousse, described the  
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5 use of the Italian model and its adaptation to the local conditions as follows:  
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10 To develop our cluster, we started with very little information, then we made several visits to  
11 Italy to see how clusters work there. Then, after the visit of Mr. Nimish, an American  
12 consultant expert in logistics, we understood that we were close to our goal. Particularly, we  
13 do not want to take the idea of clusters wholesale, we want to adapt it to our reality. In  
14 concrete terms, here technology centers are very important, because our companies cannot  
15 afford the cost of introducing the new equipment. To develop a center for management,  
16 logistics and design is similarly important, for the same reason (Interview BSC-Rousse,  
17 executive director, 11-07-2005)  
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20 In practice, Ms. Goranova pointed out that the Italian model has been imitated in very  
21 practical ways in Rousse; however, the experience of Emilia Romagna is just one of the  
22 elements shaping Rousse's cluster initiative, together with inputs from foreign consultants  
23 and the experience of local entrepreneurs. Figure 3 schematizes the 'cluster' strategy for the  
24 support of firms and inter-firm co-operation as developed by BSC-Rousse:  
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35 **<Figure 3 here>**  
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39 The strategy of BSC-Rousse is based on pooling and sharing technical resources  
40 among firms; it has purchased specialized machinery that has to be shared among the firms in  
41 the cluster, acquired some buildings to use as business incubators, and instituted a fund to  
42 provide financial support to local firms. The center has also implemented new initiatives,  
43 including a center for marketing, management and logistics and a common structure for the  
44 correction of imperfections in the products. International donors have played a key role in the  
45 establishment of this 'cluster initiative.' Ms. Goranova was able to present to foreign  
46 consultants the initiatives of the BSC as coincident with the mission of promoting a sound  
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3 market economy, and in doing so she has guaranteed support from foreign consultants in  
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5 both grant writing and in presenting BSC initiatives to the potential donors:  
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10 The Business Support Center began to work in 1994. In 1996 the BSC won the first PHARE  
11 project, thanks to the co-operation with a British consultant who understood very well what  
12 we wanted to achieve here, and we started to do real things. We started the first business  
13 incubator in Bulgaria, and went to the US for two conferences. After this we were able to  
14 convince two Austrian consultants to support a further request of funding, and we got one  
15 additional million of dollars. With this money, we organized the second business incubator  
16 and the first scheme for leasing of machinery. Later we obtained \$50 thousand from the US  
17 government for a fund for support of SMEs, that we used to create a guaranteed fund to  
18 finance agricultural businesses (Interview BSC-Rousse, executive director, 11-07-2005).  
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21 This interview excerpt shows that the bottom up ‘cluster initiative’ implemented by BSC-  
22 Rouse draws upon the Italian experience of industrial districts in two inter-related ways. In  
23  
24 practice, BSC has organized several visits to Emilia Romagna to understand the Italian  
25  
26 experience. In rhetoric, BSC representatives have successfully used the language of the  
27  
28 clusters literature to ‘sell’ their projects to foreign donors.  
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33 The coexistence of this ‘bottom up’ policy initiative in Rouse with much more  
34 recent nation-level ‘cluster’ policies opens up possibilities of synergy, but also of conflicts.  
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36 Looking at the cluster policies in Bulgaria as a whole, three main categories of actors are  
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38 involved: foreign consultants, local elites, and national administrators. These categories have  
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40 overlapping but not necessarily coincident interests. There are potential conflicts over the use  
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42 of resources. Specifically, EU-funded projects must be co-financed by local agencies and/or  
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44 firms, thus raising questions about whose resources should be pooled in the projects. Also,  
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46 the role of foreign consultants is very important and at the same time contested. Although  
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48 vital in importing new ideas and creating liaisons with other agencies within the EU, these  
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50 consultants often ‘consume’ an excessive amount of the funds intended for the projects:  
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3 Projects financed with these EU funds have to be co-financed at 50%, and require the  
4 presence of foreign consultants. These foreigners do not know the reality of the Bulgarian  
5 market, and for firms to pay around a quarter million of euros for useless advice is not  
6 convenient. We are working and hoping to get EU money at more convenient conditions  
7 (Interview BSC-Rousse, executive director, 11-07-2005).  
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11 Even though there are interactions between the local cluster initiatives supporting the  
12 production of clothing and the more bureaucratic, nation level cluster policies, they are not  
13 alike. In particular, the Bulgarian government has established a 'cluster' in Rousse to re-  
14 vitalize the production of silk. The difference between the official establishment of a 'cluster'  
15 by the government and the bottom up initiative by local leaders is apparent in this interview  
16 excerpt:  
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27 The first registered cluster in Bulgaria was in Rousse in 2004, it is the cluster of silk  
28 production, but it hasn't developed yet.  
29 There is an EU program to develop cluster, so EU people will give money and consulting  
30 about clusters. ... So there is cluster on silk production, which have been signed, but it is not  
31 working, and there is a cluster in clothing production which hadn't been signed, but it is  
32 working... 50% of the money should be put by businesses, 50% by PHARE (Interview BSC-  
33 Rousse, executive director, 11-07-2005).  
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37 In sum, in Rousse, the bottom up development of an industrial district/cluster, in which local  
38 firms and local leaders developed their own vision for the future of their region coexist with  
39 the top down State led cluster policies, in an equilibrium in which the nature and the  
40 objectives of each 'initiative' has to be negotiated among the actors involved: some key large  
41 firms, BSC-Rousse and the government.  
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## 51 **5 Conclusion. Cluster policies in post-socialist context**

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53 This paper has investigated the articulation of cluster policies at the European Union  
54 level, national level in Bulgaria, and local level in the city of Rousse. In doing so, it  
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problematized the emphasis of cluster policies on cutting edge innovation - the Silicon Valley model embraced by the EU - when implemented in Bulgaria. The authors pointed out that, indeed, the European Union considers cluster policies as a part of its innovation strategy and a tool to compete with the United States in the generation of new knowledge. However, the national government of Bulgaria offers a different picture: Sofia sees cluster policies as a tool for economic reconstruction. Bulgaria lost many of its high tech industries in the collapse of State socialism, but it achieved industrial re-development through highly conservative economic policies and the import of technology and capital from foreign investors. In the Bulgarian context, two priorities outweighed the fostering of cutting-edge innovation: the injection of capital in a cash poor economy and the substantial reforms of the public sector - including smoother relations between the public and private sectors. Cluster policies contributed to both goals. At the local level, in the city of Rouse foreign investors played a key role in both developing technological capabilities and encouraging strong horizontal ties among local firms. Furthermore, the local elite used the concept of 'clusters' creatively in designing an ambitious plan of local development. In doing so, they built upon the experience of Italian industrial districts, inputs of foreign consultants, and the experience of local entrepreneurs. The skilful use of cluster policy rhetoric helped them to acquire resources from foreign donors to implement their plan.

Besides highlighting the shifts, this paper pointed to the continuities in the cluster concept among the three scales. The Bulgarian government is mapping its clusters and adopting the general blueprint of cluster policies as 'suggested' by Brussels. Elites in Rouse constantly negotiate inputs from foreigners and from the national government in a complex game of cooperation and friction. Indeed, the sharpest critiques of the cluster literature

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3 argued that the success of these ideas in policy circles was due to the vagueness of the  
4 underlying concepts (Markusen 2003, Martin and Sunley 2003). This paper suggests that  
5 there are limits to the ‘vagueness’ of the cluster concept among policy makers. Specifically,  
6 cluster policies are shaped by the interaction of a transnational service class – such as  
7 Michael Porter’s consultancy – with supranational, national and local bureaucracies. In the  
8 cases considered here, the funds from the European Union and other sources provide  
9 conditionalities and opportunities that pose at least some constraints on policy makers’  
10 understanding of clusters.  
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22 Overall, this paper highlighted the importance of the post socialist experience in the  
23 formation and implementation of cluster policies in Bulgaria. The collapse of state socialism  
24 generated the context in which policies are created and implemented; at the same time, the  
25 memory of socialism created resistance against cluster policies, because some thought that  
26 they ‘savoir of communism.’ Therefore, clusters are among many vague Western  
27 modernizing concepts that local elites in postsocialist countries appropriate and transform  
28 according to their own agenda. This paper invites the scholarly community to further  
29 research the cultural, economic and social geographies of those ‘appropriations’ in the  
30 postsocialist context. At the same time, it argues that the shifts in meaning from West to East  
31 are sometimes leading to positive concrete outcomes, such as the cluster initiative of Rouse.  
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46 Finally, we would like to conclude this paper with some reflections on Wolfe and  
47 Gertler’s distinction of ‘analytical’ vs. ‘prescriptive’ cluster research (2004: 72). It seems to  
48 us that both approaches regard cluster research and cluster policies as interventions from  
49 external actors onto well defined ‘cluster’ entities. Instead, throughout this paper we argue  
50 that cluster policies are paths shaping actions that influence trajectories of development  
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3 beyond each single cluster. Therefore, we suggest that scholars should ask new kinds of  
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5 questions. Besides enquiring whether or not 'cluster/industrial districts' are good theories  
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7 (Markusen, Martin and Sunley) or what constitutes successful cluster policies (Lundequist  
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9 and Power), we would also ask how cluster policies alter development patterns in specific  
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11 regions and how they affect post-socialist changes throughout Eastern Europe. Specifically,  
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13 this paper has shown that the grant system under which 'cluster policies' are financed has  
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15 consequences on the recipient institutions. The disbursement of funds from foreign donors  
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17 depends on meeting certain conditions, including rules on accounting and transparency in the  
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19 use of resources, and also the restructuring of the recipient institutions and the establishment  
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21 of links with local governments and firms abroad. These conditions are objectives outside the  
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23 objective, forcing local governments and firms to change along lines drawn in Brussels. In so  
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25 doing, the disbursement of resources from the EU and other donors contributed to the  
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27 institutional and economic restructuring of Bulgaria from socialism into capitalism and EU  
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29 membership. Therefore, cluster policies already contributed to the postsocialist  
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31 transformation of Bulgaria, even though their concrete impact on Bulgarian clusters is still  
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33 unfolding.  
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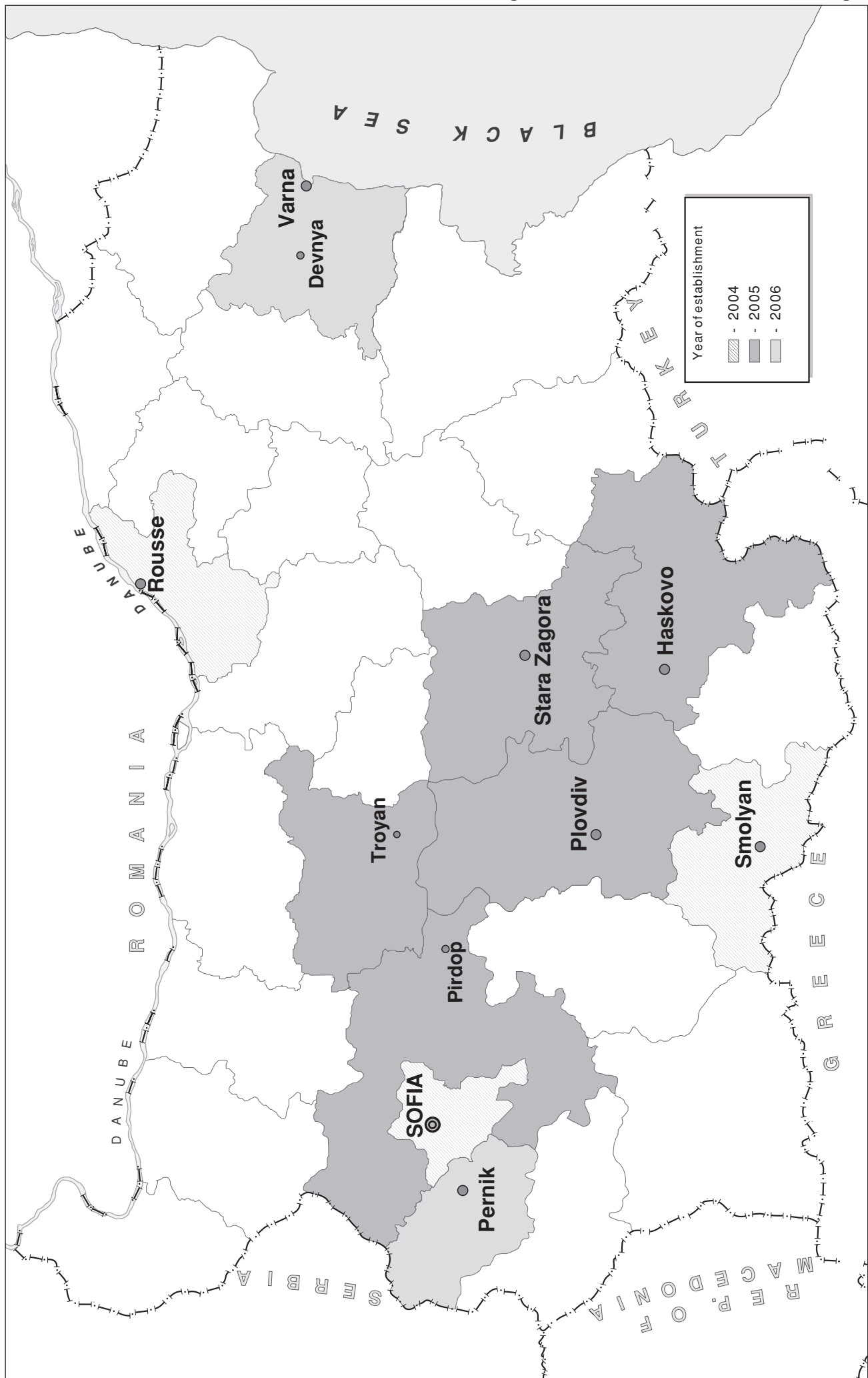
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### Endnotes

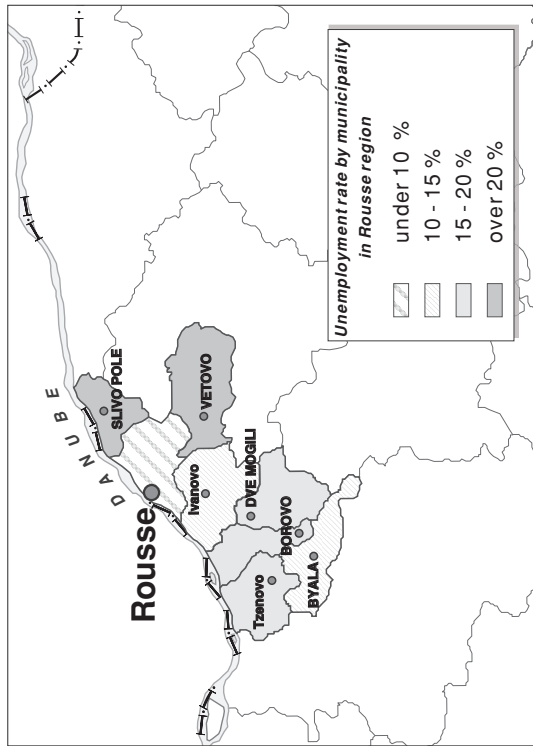
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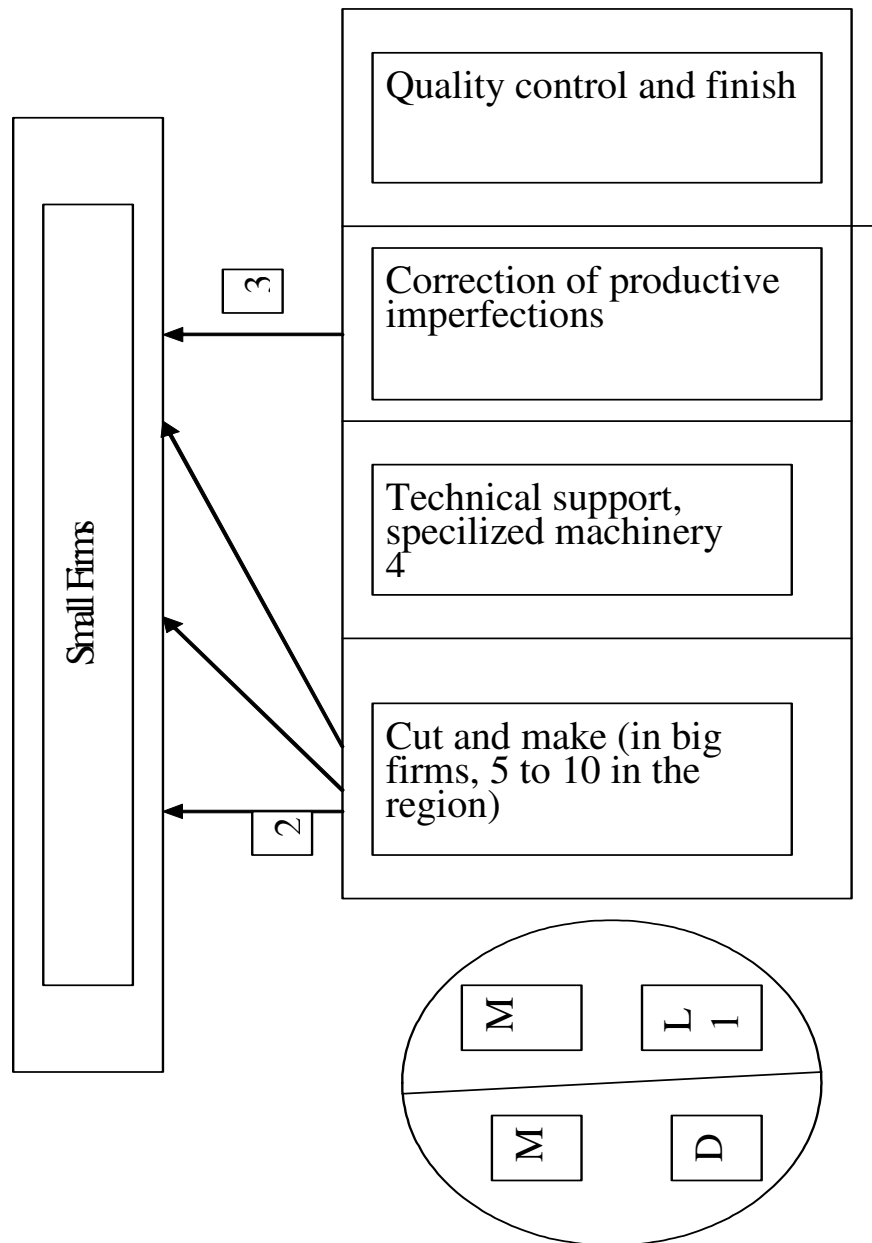
<sup>1</sup> Funded by a *Doctoral Dissertation Improvement Grant* from the National Science Foundation, *Off Campus Dissertation Research Fellowship* from the Graduate School of the University of North Carolina at Chapel Hill, *Doctoral Research Travel Award* from the University Center for International Studies (presently called Center for Global Initiatives) of the UNC-Chapel Hill, *Dissertation Completion Fellowship* from the Graduate School of the UNC-Chapel Hill, this paper draws on empirical research undertaken between 2005-2006 from a project entitled 'the Relationship between the Processes of Outsourcing of Italian Textile and Clothing Firms and the Emergence of Industrial Districts in Eastern Europe'

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**Figure 3: Firms support in Rousse***Source: BSC-Rousse*

1 : Marketing, Management, Design and Logistics: It has been planned, but not yet developed.

2: Large firms provide the cloth and cut it, and outsource to small firms in the area the sewing.

3: the correction of productive imperfections in the future will be moved closet o the small firms, for better efficiency.

4: currently, the technical support is made through public private partnership with large firms: the BSC buy for them specialized machinery, at condition that this machinery is made available for other firms. However, there are plans to implement an independent center for technical support

**Table 1. Bulgaria: Gross Domestic Product by Final Expenditures.****Previous year = 100%***Source: National Institute of Statistics*

<b>Year</b>	<b>Gross Domestic Product</b>
<b>1996</b>	<b>90.60</b>
<b>1997</b>	<b>94.42</b>
<b>1998</b>	<b>104.01</b>
<b>1999</b>	<b>102.30</b>
<b>2000</b>	<b>105.39</b>
<b>2001</b>	<b>104.07</b>
<b>2002</b>	<b>104.48</b>
<b>2003</b>	<b>105.01</b>
<b>2004</b>	<b>106.64</b>
<b>2005</b>	<b>106.25</b>
<b>2006</b>	<b>106.32</b>
<b>2007</b>	<b>106.17</b>



**Table 2: Counterparts in the VEGA Program**

Source: adapted from USAID

<b>Name of Counterpart Institution</b>	<b>Leadership/ Ownership of the project Grade range: 1 to 5 (max)</b>
Business Center Serdon	5
VOCA Consult	5
ELC	5
Bulgarian Assn for Alternative Tourism (BAAT)	4
eFlag	5
Business Incubator Gotse Delchev	5
CEE Securities	3
Bulgarian Association of Management Consulting Organizations (BAMCO)	4
Center for Entrepreneurship and Executive Development (CEED)	5
Flag-Apex	4
ICT Cluster	5
Regional Science and Technology Unions (RSTU)	5

**Table 3 Establishment of clusters in Bulgaria in the period June 2004 – April 2006**

Source: Ministry of Economy and Energy of Bulgaria

Denomination/sector	Region	Year of establishment
Textile cluster 'Bulgarian Silk'	Rousse	2004
ICT Cluster	Sofia	2004
Cluster 'Tourism Rhodopi – BG'	Smolyan	2004
Industrial cluster 'Varna Port West'	Denya	2004
Industrial cluster 'Srednogorie Med'	Pirdop	2005
Cluster 'Furniture made in Troian'	Troyan	2005
Industrial cluster 'Energy Heart of Bulgaria'	Stara Zagora	2005
Tourism cluster 'Northern Black Sea Region'	Varna	2005
Cluster 'Laser & Optics'	Plovdiv	2005
Textile cluster 'Apparel & Textile'	Haskovo	2005
Food processing cluster 'Traditional Bulgarian Products on European Table'	Stara Zagora	2006
Cluster 'Production of Agricultural Equipment'	Rousse	2006
Eco-industrial cluster	Pernik	2006
Cluster 'Bulgarian Media & Printing'	Plovdiv	2006

**Table 4: post socialist economic transformation of the City of Rouse: GDP***Source: Rouse Chamber of Commerce and Industry*

		<b>1989</b>		<b>2005</b>
<b>Industry</b>	Machinery and electro technical industry	28%	Industry (other than textile and clothing)	24%
	Chemical industry	17%		
	Light industry	21%	Textile and clothing	<b>6%</b>
<b>Agriculture and food processing</b>		24%		15%
<b>Services</b>		10%		55%