

FOREIGN INVESTMENT ROLE IN ECONOMIC DEVELOPMENT OF MACEDONIA

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Abstract

Foreign investments are of particular importance to any national economy, but they have even more importance on economies such as Macedonia's economy. Such economies are known by insufficient accumulation and need of financial resources coming from abroad.

Small economies such as Macedonia's economy, along with policies for fostering domestic investment, are also build strategies for attracting foreign investment. With such policies, the development strategy relies on exports through which competitive capacity in the international market increases, foreign exchange is provided and economic development is stimulated.

The Republic of Macedonia throughout the transition period has claimed to attract foreign investments. Political problems (non-recognition of nationality by Bulgaria, the church by Serbia, religion and nation by Greece) and economic problems (failed privatization, high corruption, and inefficient judicial system) were an obstacle to foreign investors.

In recent years, the Macedonian government has developed a policy of offensive marketing for foreign investment. Such a strategy was backed up by numerous fiscal and monetary favors. Such stimuli resulted in the growth of foreign investment in the free economic zones, although they did not come as it was expected.

The paper presents the advantages and disadvantages of foreign investments in Macedonia's economy starting from cost-benefit analysis. Unequal conditions between IDH and domestic investments in Macedonia's economy were introduced. The regressive equation analyzes the scales of GDP and foreign investments in the Macedonian economy for the period 2000/2016

Keywords: FDI, Economic Development, FDI dynamics

INTRODUCTION

IDH in the Republic of Macedonia

The economic development of a country is dependent on domestic and foreign investors. For economic incentives, the state needs to build stimulating policies for both sectors. Based on many analyzes, Macedonia's economic policies have favored foreign investors more than the domestic ones. The benefits that foreign investors have used from government measures are: VAT exemption, profit tax, personal income tax for a maximum of 10 years, financial aid of

100,000 to 500,000 € for the factory building, cover of a part of the cost of monthly workers' income, land concession for 99 years. The same favors can't be used by domestic companies. It is mentioned above for the economic effects of IDH in a national economy. They were an important source of additional accumulation of advanced technologies, better management, improved working habit, job creation, increased export performance, improved competitiveness of local firms, improved balance of payments etc.

In the analysis of the economic experts of the FISKAST project it has been proved that in every penny invested by the government for stimulation of foreign investments in the free economic zones from 2006 onwards, is earned 5.38 denars. This indicates that the strategy for attracting foreign investment was successful. From 2006 to 2014, 9576 new jobs were opened in the free economic zones. In the same period, a job costs about € 6500. Monthly net earnings of workers in the free economic zones were 21,635 denars, the lowest level of net income in the Macedonian economy, which in December 2014 was 22,407 denars. According to government data in September 2017 on foreign investments in the last 10 years, Macedonia has allocated € 225 million, and in the free economic zones were opened 20,000 new jobs. According to these data it follows that one job cost is 11,250 €.

From the data presented above we can see that in addition to the positive results, the strategy for attracting foreign investments to Macedonia resulted in high cost. Costs for building free economic zones, fiscal relief, tax exemption, personal tax, release of contributions to the pension fund, participation in monthly salary payments have been a major burden on the free economic zones. Expenditures may be even higher because the total cost of absorbing foreign investments was never made public. Many agreements between investors and government (VMRO) have been rated as state secret jobs. Such actions have paved the way for corruptive affairs that have further increased costs in the free economic zones. Taking into account all the costs, the release of contributions, fiscal facilities, subsidies and other data, the opening up of a new job in the free economic zones is much higher compared to those of local businesses. Assessing cost-benefit ratios can be utilized more rationally.

The high cost of foreign investment has sparked debates among economists. Many economists estimate that the economic development base should be backed up by local businesses. In the last 10 years, they have opened 80,000 new jobs and have not enjoyed the favors of foreign companies.

The new government builds incentive policy for absorbing foreign investment, but conditioning them to boost co-operation with domestic companies and increase reinvestments. In can be noticed from bitter experience of the past when foreign companies ended their contracts, earning tax, fiscal and monetary facilities and leaving the country. The reinvestments were minimal and the maximum profits were transferred to the home country. Government policies for absorbing foreign direct investment should continue to be stimulating because even neighboring states claim that they choose their country, but the effects on the local companies, which have so far burdened the fiscal facilities enjoyed by foreign companies, have to be noted.

FDI dynamics and interdependence between them and GDP in the Macedonian economy

Macedonia's economy after the transition (1991) and until 2000 achieved modest results in terms of FDI. In this decade, foreign direct investment in Macedonia's economy amounts to \$ 542.8 million. The weakest year was 1993 when Macedonia invested in foreign investments worth \$ 812,000 and the most successful was the year 2000 in which foreign investments worth \$ 152,270,000 were made. Such a performance of foreign direct investment was a consequence of the wars that took place in the territories of the former Yugoslavia, political problems (non-recognition of Macedonia from neighboring states except Albania), domestic

economic instability, inter-ethnic problems, failed privatization, non-stimulating measures for attracting foreign investments etc.

As it can be seen from the data in the table below, IDH in Macedonia in 2000 begins to grow. In the period 2000/2016, about \$ 4.7 billion was invested by foreigners in Macedonia. Fewer foreign direct investments were realized in 2002 (\$ 77.8 million) and more investments were made in 2008 (\$ 611.8 million). The growth of foreign investment in the analyzed period results from the improvement of the business climate, political stability, the inclusion of Macedonia in the UN, CEFTA, the IMF and other financial institutions, the acquisition of candidate status for EU and NATO membership, fiscal and monetary benefits for foreign investors etc.

Table 1. The dynamics of GDP and FDI in the Macedonian economy in the period 2000/2016 (in million \$)

	GDP	FDI
2000	377.3	152.3
2001	371.1	449.1
2002	401.8	77.8
2003	494.6	80.6
2004	568.3	139.5
2005	625.9	116.2
2006	686.1	350.7
2007	833.6	330.8
2008	991.1	611.5
2009	940.2	259.4
2010	940.7	302.9
2011	1049.5	507.9
2012	974.5	331.3
2013	1081.8	402.2
2014	1131.9	120.2
2015	1008.6	241.9
2016	1049.1	242.0

Source: [https://koemb.com/Macedonian GDP Foreign direct investment](https://koemb.com/Macedonian-GDP-Foreign-direct-investment),

As we can see in the table above, in addition to IDH's progress in the period 2000/16, the dynamics of GDP in the Macedonian economy is presented. This important macroeconomic indicator for the 16 years analyzed nearly tripled, from \$ 3.77 billion in 2000 to \$ 10.49 billion in 2016. GDP in this period of GDP marks oscillations and is characterized by an inadequate dynamic to produce curves significant positive economic.

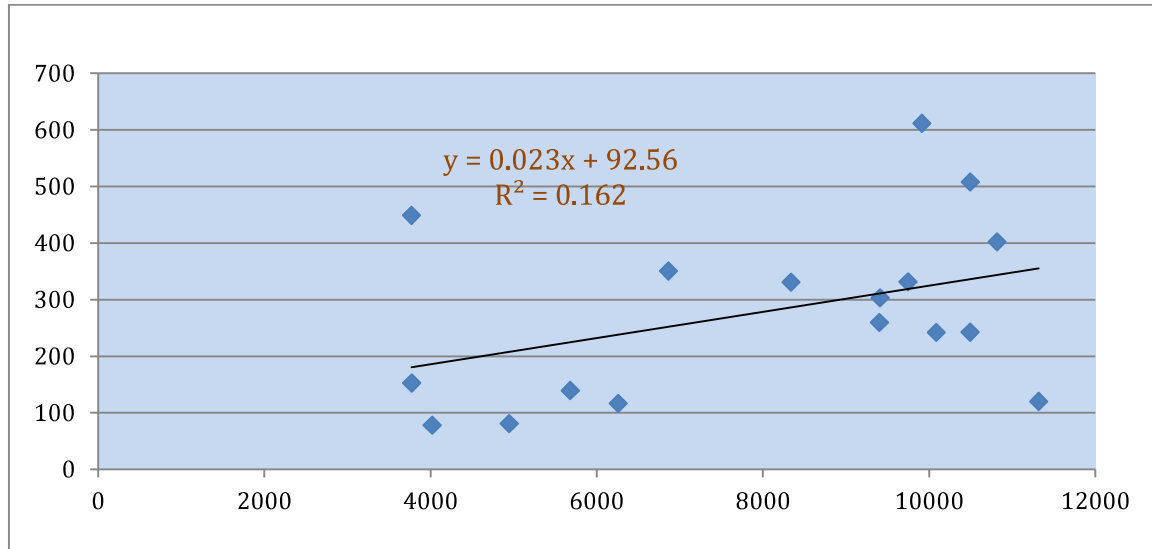
Economic analyzes are accompanied by the contribution of the indicators to the economic development. As the subject of the analysis at work is FDI, we find the correlation between them and GDP as synonymous with economic development. For the realization of this objective, we apply the regression equation in which the GDP is the dependent variable (Y) and the undefined variable FDI (X). Based on the regression equation, independent (IDH) and dependent economy development (GDP) ratios are defined.

In the present case, a simple regression model has been applied, whose equation is expressed as follows:

$$Y = \beta_0 + \beta_1 + \varepsilon t$$

The β_0 parameter is constant, β_1 is the linear regression coefficient and εt error factor during the time of the analysis (t). It shows the deviations of the values observed from the expected values of the variables set.

Graph 1. The regression equation of GDP and FDI in the Macedonian economy for the period 2000/2016



As can be seen from the linear regression equation between dependent variables Y (PBB) and independent x (FDI) is: $y = 0.023 x + 92.56$. This shows the negligent correlation between the two variables, the GDP ratio and FDI in the analyzed period in the Macedonian economy is 1: 0.023 R = 0.40 (Multiplier 0.403296), which correlates to a poor correlative FDI and GDP ratio, and $R^2 = 0.16$ (R Square 0.166824) shows that FDI in the period 2000/2016 in the Macedonian economy only 16% influenced the GDP growth and 84% (1 - 0.16) it was related to other factors.

Foreign direct investment per capita in some particular countries of the world

FDI per capita in different economies do not have the same levels. They differ from country to country. The most relevant indicator which presents the real level of FDI is their amount per capita. In other words, FDI shows how many of them each resident belongs to a national economy. The data in the table below presents FDI per capita in 2015

Table 2: FDI per capita in some particular states for 2015 (on \$)

Luxembourg	58.369	Portugal	764	Albania	462
Ireland	10.877	Estonia	728	Serbia	276
Netherlands	1.911	Montenegro	719	Romania	212
Austria	1.634	Germany	637	Macedonia	179
Iceland	1.461	Norway	517	Turkey	172
Spain	963	Russia	492	Bosna & Herceg.	81

Source: eu.cham.eu foreign investment-per-capita-eu-cham

As we can see from the countries analyzed in 2015 with the exception of Bosnia and Herzegovina (\$ 81) and Turkey (\$ 172) Macedonia has realized the lowest FDI from all other countries. Luxembourg leads with \$ 58,369 per inhabitant, then Ireland with \$ 10,877, Netherlands with \$ 1,911, Austria with \$ 1,634, Iceland with \$ 1,461, Spain with \$ 963, Portugal with \$ 764, Estonia with \$ 728, Montenegro with 719 \$, Germany with \$ 637, Norway with \$ 517 Russia \$ 492, Albania with \$ 462, Serbia with \$ 276, and Romania with \$ 212 FDI per person.

The low FDI per capita in Macedonia's economy in 2015 is a result of the loss of confidence of foreign investors who, despite the many favors (fiscal and monetary policy, infrastructure) offered by the government, were reluctant to invest in Macedonia. It was the year when the then opposition party (LSDM) introduced the so-called "bombs", wiretapping scandal which revealed numerous corruption affairs and other criminal acts. The "bombs" proved that the state was captured by the government party (VMRO), the gullibility did not work, there were convictions of many years of imprisonment without any evidence, high corruption level, serious violations of human rights etc. The above mentioned reasons shrunk the IDH in the following year.

Foreign investment as a factor in technological development

Technological advances represent the main indicator of the economic development of a country. In other words, economic growth and economic development are conditional on seeing. In globalizing processes, every national economy must follow technology advancements.

Macedonia as an underdeveloped state has obsolete technology and as such has limited competitive abilities. Limited financial means for technological advancements imply the need for its import through foreign investment. Through them, management skills are transferred, new knowledge is disseminated, new technology is used in production and services, etc.

For Macedonia FDI is a driving force for development, especially in the area of technological advancement both in the manufacturing sector and in the services sector. The new technologies transferred from IDH to the Macedonian economy would result with many positive effects presented as follows:

- Application of higher-level technologies in the industry sector
- Restructuring of traditional sectors that will stimulate new employment
- In the raw materials sector, the highest rate of processing of products was possible
- Faster application of new technologies in the services sector (banking, tourism,

- Telecommunication etc.

CONCLUSION AND RECOMMENDATIONS

The above-mentioned presentations show that the Macedonian economy needs structural changes in the way and the measures for absorbing FDI. The objective of the changes is to improve their impact and to continue the economic activity of companies in the free economic zones.

FDI strategy should not only be based on fiscal facilities and grants but also on creating long-term conditions for stabilizing the political environment, improving the business climate, combating corruption, improving the judiciary, securing capital, improving the quality of education, solving the name problem, and creating conditions for membership in NATO and EU would be a factor for absorption of FDI.

For encouragement FDI, is needed more rational utilization of human resources and technological advancements in local companies. The state using its IPA funds and its financial resources should stimulate innovations in local entities. Such a strategy will increase the incomes and competitive competencies of businesses. These would successfully integrate with foreign investors. Their capacities can be significantly improved by the integration of free economic zones. In green industrial areas dedicated to domestic investments.

Transparency in public utilities consumption that will contribute in measuring the FDI effects. This will increase citizens' confidence in government policies and the way public spending is consumed. The government so far spending public funds was not transparent and many corrupt affairs.