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Preliminary Communication

THE IMPACT OF DOING BUSINESS IN ATTRACTING FDI IN THE REPUBLIC OF NORTH MACEDONIA AND REPUBLIC OF ALBANIA - A COMPARATIVE ANALYSIS

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Abstract
The economies of North Macedonia and Albania have for a long time been in transition. This entire period for both countries has been characterized with an economic and political instability with more obstacles during implementation of domestic reforms and the fulfillment of the required conditions in the EU integration path.
The business climate is an important indicator for accelerate economic growth and development for each country. A good business climate enables increase of the domestic investments and attraction of foreign investors. Doing Business is an international project of the World Bank which describes the business environment in various countries, through objective indicators for a business regulations and their enforcement across 190 economies and selected cities at the sub national and regional level. According to the Doing Business report, the economy of North Macedonia is ranked higher compared to Albania (is ranked on 17thpositions versus 82th position of Albania, but in a worse position in relation to FDI attraction.
The objective of this research is the impact of new challenges of the Ease of Doing Business in attracting FDI in the Republic of North Macedonia and Albania. Our assumption in this research is whether Ease of Doing Business has a positive impact on attraction of FDI. Using STATA16 software we will try to measure the trend and relationship between FDI inflow and Doing Business indicators. The findings of the research will assist international and domestic managers and companies to know the importance of Ease of Doing Business when investing in North Macedonia and Albania.
Keywords: Doing Business, FDI, GDP growth, investment, development.

1. Introduction

The Doing Business report is published annually by the World Bank since 2003, while it started with analysis of only 133 economies (World Bank, 2003). Doing Business 2020 presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies (World Bank, 2020). Doing Business covers 12 areas of business regulation. Ten of twelve areas of this report present issues of ease of doing business score and ease of doing business ranking starting: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The rest areas (two) of Doing Business also measure regulation on employing workers and contracting with governments. In this case we need to underline two areas that are not included in the ease of doing business score and ranking (World Bank, 2020).

Many entrepreneurs use Doing Business data for policy-making in their company in order to increase their domestic or foreign investments. The assumption of any government is that a better ranking of their economy at Doing Business implies that its investment climate is more favorable and will attract more foreign investors. Ease of doing business facilitates the domestic SMEs as well as foreign.

Our aim of this paper is to measure the impact of level of Doing Business of economy of North Macedonia and Albania on attracting FDI over the period from 2009 to 2019.

2. Literature review

Ease of Doing Business corresponds to an international instrument on "behavior change" not only to motivate national investors but to attract foreign investors too (Djankov et al, 2002). The Doing Business should be understood as contributing factor of the ease of doing business access to economic opportunities, decrease in corruption and implications of lower transactional costs (The Friedrich Neumann Foundation, 2017; European Commission, 2017).

First group of researchers often suggest that higher rankings will be associated with increasing FDI, which is believed to create jobs, bring in new technologies and in general create an economic growth and development. This group of researchers (Bayraktar, 2013; Olival, 2012; Shahadan et al., 2014; Vogiatzoglou, 2016) often suggests that entry business regulation can play a crucial role in determining the level of inward FDI. Those studies assert that the reduction of the time, costs and procedures before the operation of a company lead to attract FDI.

The second group of researchers underline that the impact of higher score of DB in developing or transition economies is very low or non-existent. In this case, group of researchers (Corcoran and Gillandres, 2015; Jayasuriya, 2011; Jovanovic and Jovanovic, 2015; Hossain et al., 2018; Morris and Azis, 2011) found insignificant relationship between improvements into the Starting a Business index and FDI inflows. They underline that do not necessarily lead to higher FDI inflows and if the YDB score will grew. Similarly, as mentioned, Branstetter et al. (2013) found the impact of Regulatory reforms that reduced the costs of entry in Portugal resulted in increased employment and business formation. Also higher entry costs significantly limit output per worker as a result of reduction in total factor productivity.

Hossain et al. (2018) used panel data to investigate the impact of Ease of Doing Business on inward FDI over the period from 2011 to 2015 across the 177 countries. Findings of their research emphasize that one of five analyzed DB indicators such is Enforcing Contracts have a positive significant impact on Inward FDI, while Getting Credit and Registering Property have a negative significant impact on FDI inflows, whereas two indicators such are Starting a Business and Paying Taxes haven't significant impact on FDI inflows.

The key unresolved economic problems in underdeveloped economies are high corruption and unofficial economy. Some of these economies have solved de jure but not de facto.

3. Overview of the economic context of North Macedonia and Albania

The Republic of North Macedonia has paid extraordinary attention to economic, fiscal, legal and administrative reforms which has resulted in improved business climate. I want to underline that in this aspect Republic of Albania lacks more behind (see Table 1).

Table 1. Rank of Ease of Doing Business MKD and ALB (2010-2020)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	(2020/10)
North Macedonia	71	34	22	36	25	14	16	10	11	10	17	**-54**
Albania	86	77	82	82	108	62	90	58	65	63	82	**-4**

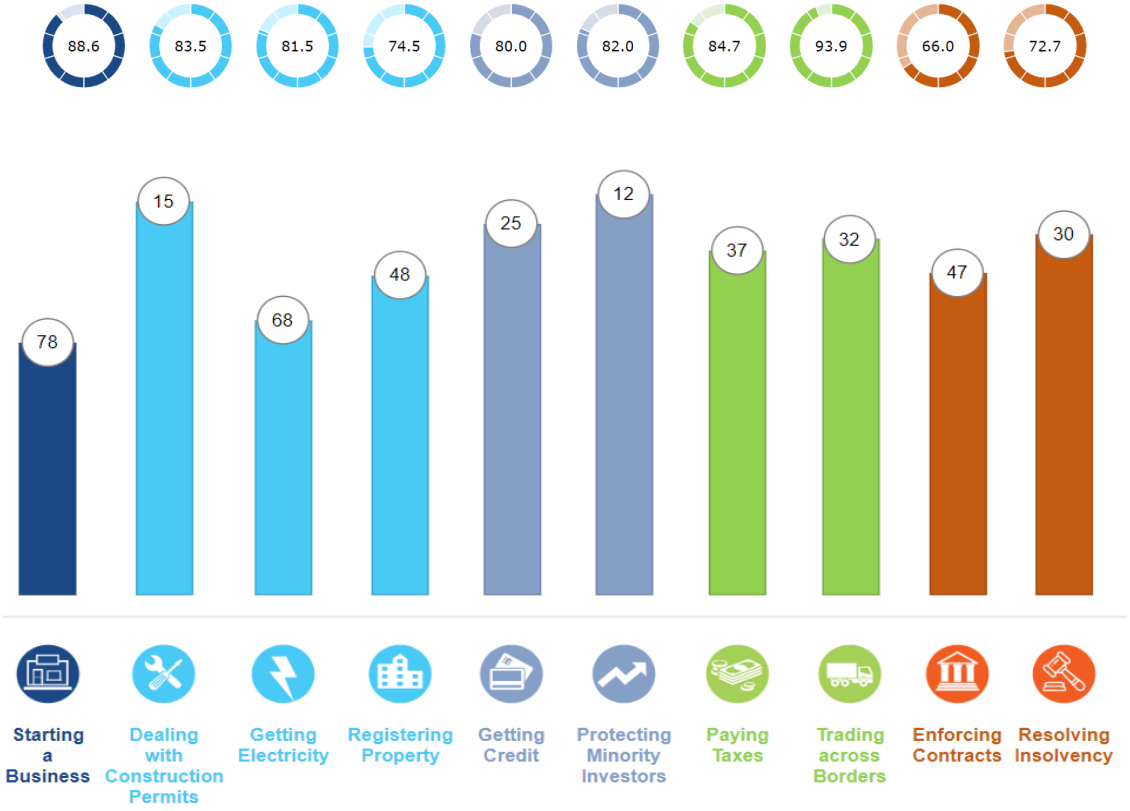
Source: Doing Business report (2010-2020), World Bank, author calculate

If we refer to Table 1, we can conclude that the progress of North Macedonia is very clear. The rank of Ease of Doing Business in 2020 is for 54 positions better than rank position from year 2010. The same phenomenon does not occur in Albania. In the case of Albania, there is only a positive change for 4 rank positions.

The report of Doing Business 2020 is published on October 2019 and covers 10 areas of business regulation*(included in Ease of Doing Business): starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency*, and additional 2 areas (Fig.1 and Fig.2).The rankings are determined by sorting the aggregate scores on 10 topics, each consisting of several indicators, giving equal weight to each topic. In the figure we can see at first level of circles related to topic scores (0-100) and rank of Doing Business topics (1-190).

The Rank of Ease of Doing Business for 2020 for North Macedonia is in 17thposition with scores 80.7.

Graph. 1 Ease of Doing Business 2020: scores and topics ranking – North Macedonia



Source: Doing Business report (2020), World Bank

The best Doing Business topics are *Protecting Minority Investors* with score 82 with rank 12 and *Dealing with Construction Permits* with score 83.5 with rank 15. The topic of *Starting a Business* have score 88.6 and is ranking in 78 position and is worst position from the other topics. For Macedonian economy, the other most unfavorable topics of Doing Business are as a follow:

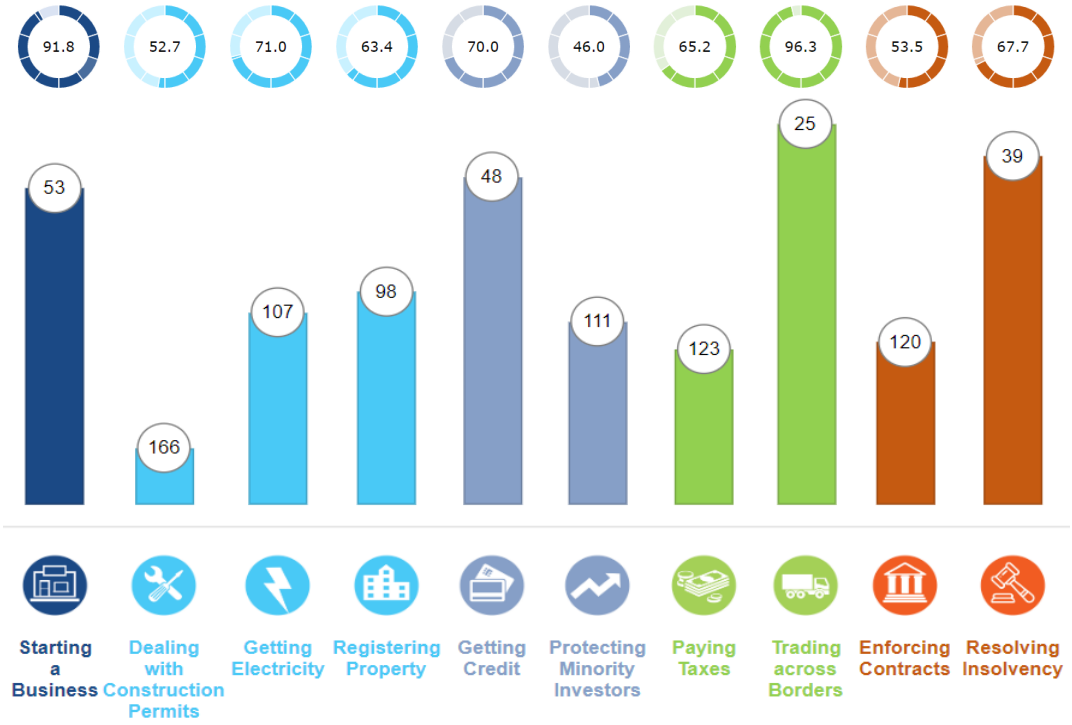
- *Getting Electricity* with score 81.5(rank 68 from 190),
- *Registering Property* with score 74.5(rank 48 from 190) and
- *Enforcing Contrasts* with score 66.0(rank 47 from 190),

The position of the Albanian economy related to the Ease of Doing Business is unfavorable. This situation results from the failure to implement reforms in the economy, rule of law and in other spheres of the economic and social life. Albania as well as North Macedonia has not yet fulfilled the criteria to become member of the EU. In this way some of the reforms are on paper but not in reality and it causes both economic and social obstacles.

The Rank of the Albanian economy in Ease of Doing Business for 2020 is in 82th position with scores 67.7.If we compare it with North Macedonia, its rank is 65 places behind.

The first topic of ease of Doing Business is *Starting a Business* which has score 91.8 and is ranked in the 53rd position. The best Doing Business topics are *Trading across Borders* with rank 25 (score 96.3), *Resolving Insolvency* with rank 39 (score 67.7) and *Getting Credit* with score 70.0and rank 48.

Graph. 2 Ease of Doing Business 2020: scores and topics ranking – Albania



Source: Doing Business report (2020), World Bank

The most unfavorable Doing Business positions for Albania are as a follow:

- *Dealing with Construction Permits* with score 52.7(rank 166 from 190),
- *Paying Taxes* with score 65.2 (rank 123 from 190),
- *Enforcing Contracts* with score 53.5 (rank 120 from 190),

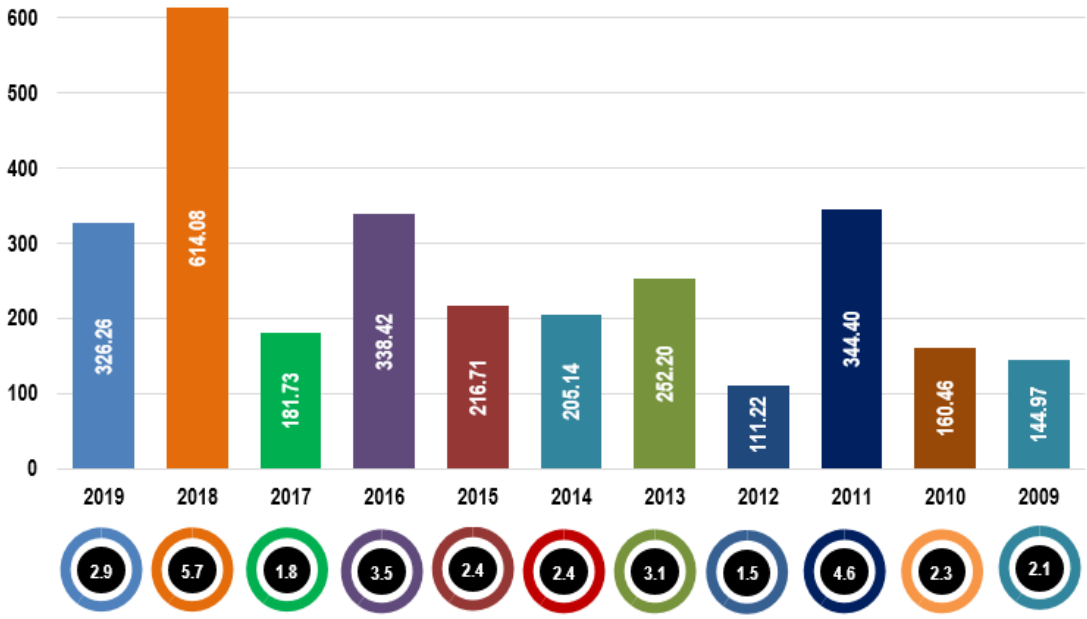
Other positions but not less unfavorable compared with the others are: *Protecting Minority Investors* (rank 111), *Getting Electricity* (rank 107) (for more see Fig.3)

In these circumstances the economy of Albania compared to North Macedonia, theoretically present more obstacles for attracting of FDI. Whether this will hold true, we will realize by the empirical analysis.

Doing Business report 2020 is dedicated to 190 countries of the World. But unfortunately the World economy or more exactly each economies of the World are facing with Corona Pandemic COVID 19. Every domestic economy has suffered negative economic and financial effects. Than in this circumstances are facing a marked decline in GDP in other words economic recession. In these circumstances of the recession, the economy of North Macedonia and Albania is expected to have less FDI inflows. This assumption, we will analyse during the other research paper, because we are still in the flow of year 2020.

If we want to analyze the flow of FDI in North Macedonia and Albania during the period 2009-2019, then we can see the tendency of FDI inflows express in fig.3 and fig.4.The FDI inflows of North Macedonia notes with ups and downs, but always towards an increase, although at the end of the period it shows a decline. We can see that FDI inflows during 2012, 2017 and 2019 are dropping evidently compared to the previous year. The year 2018 is characterized by higher FDI inflows with 614.08 million Euros during the analyzed period. This value expressed as % of GDP is 5.7%. The level of IFD inflows during year 2019, notes 326.26 million Euros or 2.9% of GDP. (see Fig.3)

Graph. 3 FDI inflows (mil Euro) and FDI inflows (% of GDP), North Macedonia (2009-2019)



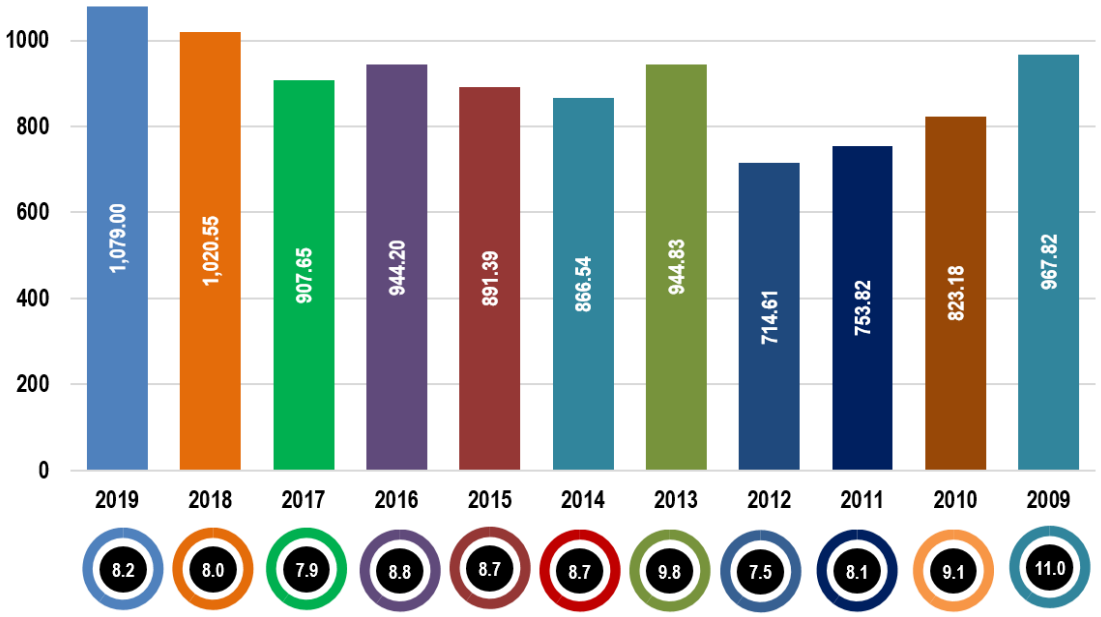
Source: Macroeconomic Indicators- Ministry of Finance RNM (2020), author calculation.

Unlike the best position of North Macedonia economy on Doing Business compared to Albania, the economy of Albania on the other side notes significantly more FDI inflows. From here stems our assumption that the best ranking in Doing Business is not a crucial factor in attracting FDIs to a country. However, other factors risk more the attraction of FDI inflow.

The FDI inflows of Albania from 2009 to 2012 are dropping from 967.82 million euro till 714.61 euro. Expressed as a % GDP is from 11.0% till 7.5% or 3.5 percentage points. The FDI inflows from year 2013 are growing steadily during from the next years. The FDI inflows from year 2013 are growing steadily during from the next years. But if we compared the FDI inflows as a % of GDP we can see that this relative indicator notes sustainable values from 8.7% (2013) till 8.2% (2019) (see Fig.4).

The year 2017 notes the best position of the Albanian economy on Doing Business report (rank 58), but is not the best year to attract more FDI inflows. In this case the best year for attracting FDI based on real values is 2019 with 1,079 million Euros (DB rank 82) or based on % of GDP is 2009 with 11% of GDP (DB rank 86) (see Fig.4 and Fig.2)

Graph. 4 FDI inflows (mil Euro) and FDI inflows (% of GDP), Albania (2009-2019)



Source: Macroeconomic Indicators- Ministry of Finance RNM (2020), author calculation.

Based on the numbers and values stated above, once again we underline our dilemma if the Ease of Doing Business impacts the attraction FDI.

4. Data and research methodology

The statistical data of this research was collected from the available World Bank data dedicated Ease of Doing Business (EDB), MAKstat and Instat (statistic office of North Macedonia and Albania) therefore is used APA citation model in the text.

There are various econometric models developed in economic literature for the identification of the relationship between the FDI and different factors. The aim of this research is to investigate the relationship between FDI inflow and Doing business in North Macedonia and Albania. To accomplish the data base for this research we determine only nine Doing Business indicators with FDI inflows during the period 2009-2019. The research will consider a model as follows:

$$FDI_i = f(SB_i, DCP_i, GE_i, RP_i, GC_i, PMI_i, PT_i, TAB_i, EC_i,)$$

The OLS fixed effect model for the regression estimates used in this research, as follow:

$$FDI_i = \alpha_1 + \beta_1 SB_i + \beta_2 DCP_i + \beta_3 GE_i + \beta_4 RP_i + \beta_5 GC_i + \beta_6 PMI_i + \beta_7 PT_i + \beta_8 TAB_i + \beta_9 EC_i + u_i + \varepsilon_i$$

Description of the variables using in the model are presented in Table 2:

Table 2. Description of variables

Acronyms	Category of Variables	Data sources
FDI	Foreign Direct Investment Inflow (million euro)	MAKstat, INSTAT
SB	Starting a Business	Doing Business
DCP	Dealing with Construction Permits	Doing Business
GE	Getting Electricity	Doing Business
RP	Registering Property	Doing Business
GC	Getting Credit	Doing Business
PMI	Protecting Minority Investors	Doing Business
PT	Paying Taxes	Doing Business
TAB	Trading Across Borders	Doing Business
EC	Enforcing Contracts	Doing Business
RI	Resolving insolvency	Doing Business
EDB	Ease of Doing Business	Doing Business

5. Results and Discussion

Descriptive statistics for all variables FDI, SB, DCP, GE, RP, GC, PMI, PT, TAB and EC of each economy (MKD-North Macedonia and ALB-Albania) are presented in Table 3.

Table 3. Descriptive Statistics of Variables

Variable	Obs.	Mean MKD	Std. Dev. MKD	Min MKD	Max MKD	Mean ALB	Std. Dev. ALB	Min ALB	Max ALB
FDI	11	263.24	141.16	111.22	614.08	901.24	108.63	714.61	1,079.00
SB	11	88.01	2.46	81.00	90.30	89.33	3.05	82.00	91.70
DCP	11	72.22	10.64	52.00	83.40	28.50	23.89	0.00	53.40
GE	11	77.99	4.53	72.60	84.50	55.58	7.23	43.70	64.60
RP	11	70.42	3.92	62.40	74.50	56.85	5.85	47.50	63.40
GC	11	67.41	9.31	56.30	80.00	74.77	12.67	60.00	87.50
PMI	11	66.37	13.22	43.30	82.00	56.18	13.31	42.00	70.00
PT	11	81.53	6.12	74.20	94.20	58.76	5.82	49.20	65.30
TAB	11	82.87	10.58	71.90	93.90	83.05	12.88	69.70	97.00
EC	11	60.14	4.71	56.00	68.00	56.74	2.18	53.50	59.30
EDB	11	73.67	5.59	66.9	80.7	62.52	3.13	57.00	67.00

Source: Author calculation

The presence and the number of co-integrating relationships among the underlying variables are tested through the Johansen procedure. To check the stationarity of the underlying data series, we follow the standard procedure of unit root testing by employing the Augmented Dickey Fuller (ADF) test. On the basis of the ADF test, all the series are found to be non- stationary at level with intercept. However, after taking the first difference these series are found to be stationary at 1, 5 and 10 percent significance level (see Fig.5)

According to the values of Augmented Dickey Fuller (ADF) Test and trend of FDI Inflows as well Ease of Doing Business in North Macedonia, we can note that individually there are significant trends.

Graph. 5 Augmented Dickey Fuller (ADF) test, North Macedonia

Dickey-Fuller test for unit root — Number of obs = 10

	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-4.944	-4.380	-3.600	-3.240

MacKinnon approximate p-value for Z(t) = 0.0003

D.fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
fdi						
L1.	-1.573161	.318166	-4.94	0.002	-2.325504	-.820818
_trend	40.27416	15.46431	2.60	0.035	3.706888	76.84144
_cons	200.8181	85.10871	2.36	0.050	-.4319813	402.0682

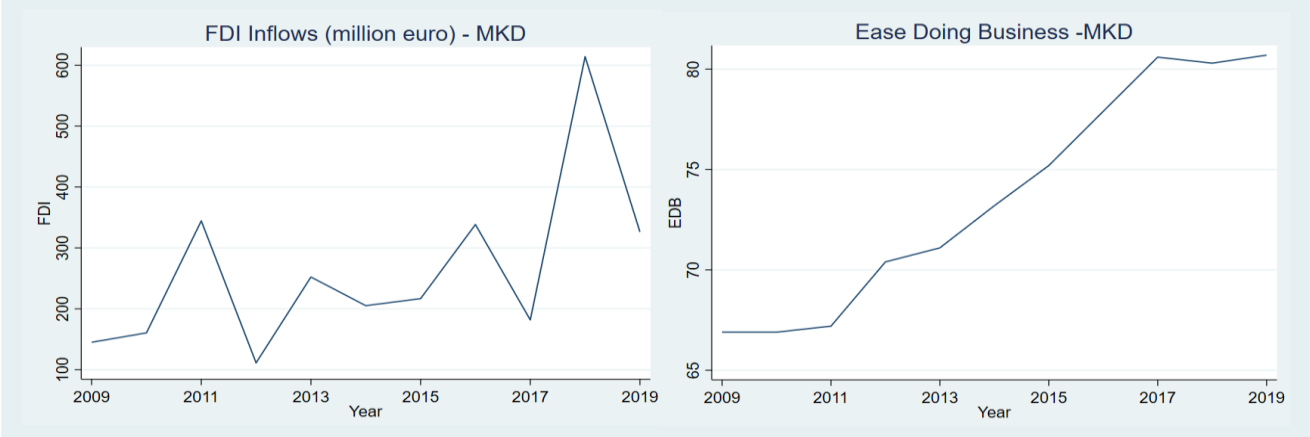
Dickey-Fuller test for unit root — Number of obs = 10

	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-2.365	-4.380	-3.600	-3.240

MacKinnon approximate p-value for Z(t) = 0.3982

D.edb	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
edb						
L1.	-.8317217	.3516423	-2.37	0.050	-1.663223	-.0002199
_trend	1.461141	.6222825	2.35	0.051	-.0103233	2.932605
_cons	54.03445	22.3136	2.42	0.046	1.271167	106.7977

Graph. 6 FDI Inflows and Ease of Doing Business TREND – North Macedonia



Graph. 7 Augmented Dickey Fuller (ADF) test – Albania

Dickey-Fuller test for unit root — Number of obs =

	Test Statistic	1% Critical Value	5% Critical Value	10% Cri Va
		Interpolated Dickey-Fuller		
Z(t)	-3.390	-4.380	-3.600	-

MacKinnon approximate p-value for Z(t) = 0.0527

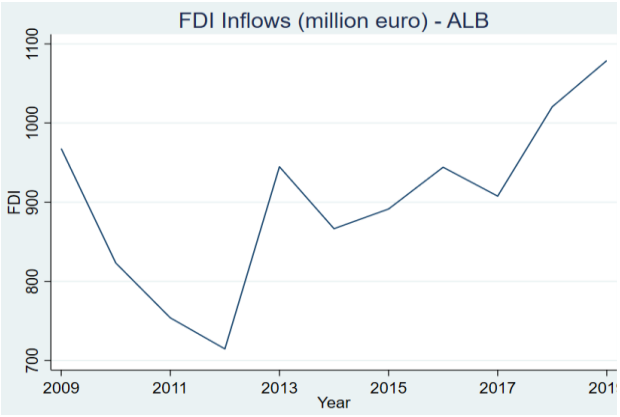
D.fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf. Inte
fdi					
L1.	-.8987791	.265094	-3.39	0.012	-1.525627 -.27
_trend	29.74374	8.42119	3.53	0.010	9.830785 49.
_cons	641.5631	217.3181	2.95	0.021	127.6876 115

Dickey-Fuller test for unit root — Number of obs =

	Test Statistic	1% Critical Value	5% Critical Value	10% Cri Va
		Interpolated Dickey-Fuller		
Z(t)	-1.651	-4.380	-3.600	-

MacKinnon approximate p-value for Z(t) = 0.7718

D.edb	Coef.	Std. Err.	t	P>|t|	[95% Conf. Int
edb					
L1.	-.6072709	.3677821	-1.65	0.143	-1.476938 .2
_trend	.3888594	.3528131	1.10	0.307	-.4454111 1
_cons	35.91458	22.82893	1.57	0.160	-18.06727 89



According to the values of Augmented Dickey Fuller (ADF) Test and trend of FDI Inflows as well Ease of Doing Business in Albania, we can conclude that there is a significant trend of FDI Inflows but unfortunately the Ease of Doing Business has not a positive significant trend.

In order to measure the relationship between FDI Inflows and Ease of Doing Business (or their components), as well to clarify our assumption we will measure the Pearson Correlation index for two level of significates (critical value 5% and 10%). The values of Pearson correlation index are provided bellow:

Table 4. Pearson Correlation index and significant level

Relationship	North Macedonia			Albania		
	Corr.	**Sig. Lev. (5%)**	**Sig. Lev. (10%)**	**Corr.**	**Sig. Lev. (5%)**	**Sig. Lev. (10%)**
FDI ↔ SB	0.2991	0.3715	non-significance	0.3251	0.3293	non-significance
FDI ↔ DCP	0.3558	0.2828	non-significance	0.3853	0.2419	non-significance
FDI ↔ GE	0.3613	0.2749	non-significance	0.1784	0.5997	non-significance
FDI ↔ RP	0.4933	0.1231	non-significance	0.5068	0.1116	non-significance
FDI ↔ GC	0.4247	0.1929	non-significance	-0.3999	0.2229	non-significance
FDI ↔ PMI	**0.5449**	**0.083**	**significant**	-0.4888	0.1271	non-significance
FDI ↔ PT	0.3131	0.3485	non-significance	0.4761	0.1388	non-significance
FDI ↔ TAB	0.4984	0.1186	non-significance	**0.5691**	**0.0657**	**significant**
FDI ↔ EC	**0.5505**	**0.0793**	**significant**	**-0.6904***	**0.0187**	**significant**
FDI ↔ RI	**0.5266**	**0.0961**	**significant**	**0.5737**	**0.0650**	**Significant**
FDI ↔ EDB	0.5036	0.1143	non-significance	0.4170	0.2020	non-significance

Source: Author calculation

According to the values in the Table 4 dedicated to the North Macedonia we will conclude:

- There are positive correlations between FDI Inflows and all components of Ease of Doing Business, but without significance level of 5%.
- There are positive correlations between FDI Inflows and RP, GC, GE, TAB DCP an SB, but without significance level of 10%.
- There are positive correlations between FDI Inflows and PMI, EC, RI (components of Ease of Doing Business) with a significant level of 10%.
- There a are positive correlations between FDI Inflows and Ease of Doing Business (as an aggregate index) with a non-significance (neither 5% neither 10%), but with a fragile significant level of 12%.

Based to the values from the Table 4 dedicated to the Albanian economy, we will conclude:

- There is a negative correlation between FDI Inflows and EC (Enforcing Contracts) with

significant level of 5%.

- There are negative correlations between FDI Inflows and PMI, GC with non-significance level (neither 5% neither 10%).
- There are positive correlations between FDI Inflows and RI (Resolving insolvency) and TAB (Trading Across Borders) with significance level of 10%.
- There is a positive correlation between FDI Inflows and Ease of Doing Business (as an aggregate index with non-significant level (neither 5% neither 10%).

5. Conclusions

Doing Business index may be a useful report for the developed economies related to the attraction of FDIs based on their economic and political reforms. But, looking at the current trend of economies of the world, we can say that most of the transition and developing countries are experiencing widespread corruption on daily basis and especially associated to the non-official economy. According to existing research as well as this research paper we can conclude that the Doing Business Index is not an adequate indicator of Business climate because of the limited scope. I think that Ease of doing business index is focused on twelve areas of regulation of the national economy and it fails to incorporate many important factors such as: corruption; functioning of the law; functioning of the judiciary and police; financial discipline - payment of obligations; politic, economic and financial country risk. This indicator cannot be taken as a key determinant of FDI attraction. This is confirmed by the findings of this research where North Macedonia has higher index of Ease of Doing Business compare Albania but much less attraction of FDI.

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Appendix

Unfortunately, the results of regression model for the both countries are non-significant. This is the reason why aren't committed in the paper.

Graph. 9 Estimation results of regression model North Macedonia

```
Linear regression                               Number of obs     =         11
                                                F(9, 1)           =       5.75
                                                Prob > F          =     0.3136
                                                R-squared         =     0.8501
                                                Root MSE          =     172.84

------------------------------------------------------------------------------
             |               Robust
         fdi |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          sb |  -70.29593   121.6457    -0.58   0.666    -1615.951    1475.359
         dcp |  -60.48044   88.12726    -0.69   0.617    -1180.243    1059.283
          ge |     -85.98   44.75962    -1.92   0.306    -654.7049    482.7449
          rp |   214.3758   483.3333     0.44   0.734    -5926.956    6355.707
          gc |   13.21899   13.60549     0.97   0.509    -159.6551    186.0931
         pmi |   8.066354   63.03277     0.13   0.919    -792.8409    808.9736
          pt |   86.77505   43.80217     1.98   0.298    -469.7843    643.3344
         tab |  -48.02698    31.3497    -1.53   0.368    -446.3627    350.3087
          ec |   39.98536     91.386     0.44   0.737    -1121.184    1201.155
       _cons |  -4498.039    12802.5    -0.35   0.785    -167169.2    158173.1
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Graph. 10 Estimation results of regression model Albania

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Linear regression                               Number of obs     =         11
                                                F(9, 1)           =      16.51
                                                Prob > F          =     0.1889
                                                R-squared         =     0.7575
                                                Root MSE          =     169.15

------------------------------------------------------------------------------
             |               Robust
         fdi |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          sb |   22.73844   102.0013     0.22   0.860     -1273.31    1318.787
         dcp |   1.939667   5.992423     0.32   0.801    -74.20128    78.08062
          ge |   63.21208      155.5     0.41   0.754    -1912.603    2039.027
          rp |    26.6501   35.75126     0.75   0.592    -427.6127    480.9129
          gc |  -94.55021   250.5424    -0.38   0.770    -3277.993    3088.893
         pmi |   55.32131   154.5232     0.36   0.781    -1908.082    2018.725
          pt |  -109.6352   201.0488    -0.55   0.682    -2664.203    2444.932
         tab |   27.96481    64.6891     0.43   0.740    -793.9882    849.9178
          ec |    92.3365   328.3236     0.28   0.825     -4079.41    4264.083
       _cons |  -3370.737   16831.78    -0.20   0.874    -217238.7    210497.2
------------------------------------------------------------------------------
```

What