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INCREASING COMPETITIVENESS - ACCELERATING ECONOMIC GROWTH IN NORTH MACEDONIA

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Abstract

Transition states with a limited marketplace and with a long-term economic development strategy usually support the growth of competitiveness in the international exchange of goods and services. They aim to expand the market and increase revenues through export. Such is the case of North Macedonia, which has a small market and a population of 2 million. The paperwork presents the dynamics of exports, imports, and the balance of payments in the last decade in the North Macedonian economy as well as their destination. Much of the exchange of goods and services is carried out with EU countries, indicating a high level of dependence and integration between the local economy and the EU. The paperwork proposes stimulating measures to increase the competitiveness of the North Macedonian economy.

The paperwork also presents the empirical side. On the basis of the regression equation, the relationship between export and economic development (GDP) is revealed. From the concrete data of the North Macedonian economy in the North for the last decade (2008/18), a fair relationship between the export of goods and services and GDP is observed. The coefficient of determination is also applied to the empirical analysis. It shows that GDP in the North Macedonian economy of the North is largely determined by exports of goods and services.

Keywords: export, import, GDP, regression equation, coefficient of determination

1. Introduction

Small market countries such as Republic of North Macedonia have support export as a development strategy. The North Macedonian economy is open (133% of GDP) and marks a gradual improvement capability in competitiveness. Imports still dominate exports and consequently have a deficit in the balance of payments (about \$ 1.6 billion in 2019).

With coordinated monetary and fiscal policies, the Republic of North Macedonia should increase the competitiveness of local companies in international markets, it should take advantage of the current economic structure, rationalize the use of available resources, invest more in innovation and education.

This paperwork presents the dynamics of international exchange in the Republic of North Macedonia for the last decade (2008/18). In the last year, the North Macedonian exports and imports are presented according to economic groups and selective countries of the EU and the Western Balkans. Empirical analysis applies the correlation and regression coefficients to identify correlative links between economic development and exports, as well as the level of determinability between them in the Macedonian economy.

There have been identified economic sectors in the North Macedonia which can increase competitiveness in the international market. A strategy for increasing the export of goods and

services in the North Macedonian economy takes a special place in this work. The paperwork concludes with final deliberation, in which the conducted research is briefly presented.

2. The dynamics of international exchange of goods and services in the Republic of North Macedonia

Exports and imports of goods and services are relevant presenters of the competitiveness of the national economy in the international market. For countries with limited markets, such as the North Macedonia, economic connections with other countries are of particular importance. The utilization of advance payments to companies that other partner economies do not have and by combining effective state policies in increasing the competitiveness of local companies can be achieved in increasing exports and contracting the balance of payments deficit.

The Republic of North Macedonia during the transition period has shown positive results in international exchange, which can be seen in the changes in the performance of exports and imports. From 1995 to 2018, exports and imports increased almost in the same proportion (6.8 times compared to 6.0 times). Expressed in absolute numbers, exports increased from \$ 1 billion in 1995 to close to \$ 7 billion in 2019 (Engjell P. & Eniel N. 2017, p. 50), while imports increased from \$ 1.5 billion in 1995 to 9 billion € 2018 (<https://stat.gov.mk/>).

The international exchange of the North Macedonian products and services during the entire transition period is accompanied by a permanent increase in the balance of payments deficit, in 1995 was \$ 0.5 billion and in 2018 amounts to \$ 1.6 billion. Balance of payments deficits result in economic problems because they reduce foreign exchange reserves. These exchange reserves are in the service of the economic intervention in crisis situations as well as to maintain the stable exchange rate of the national currency. The North Macedonia thanks to remittances from emigrants, despite the balance of payments deficit, foreign exchange reserves remain stable. According to official statistical data, remittances in North Macedonia contribute 4% of GDP; their direct and indirect contribution reaches 15% of GDP.

In the first stages of transition in all countries there were significant deficits in the balance of payments. It was a reflection of the limited economic development and lack of competitiveness of local companies. As it is known in socialist countries, state property has dominated, which inhibits market mechanisms and private initiatives. The private sector was either underdeveloped or was extremely limited. When the border opened and private initiatives were allowed, the new companies were not competitive in the international market. Such performance resulted in a negative balance of payments because imports dominated exports. The population of the countries in transition in search of a better life immigrated to the developed countries and their remittances covered the deficit of the balance of payments.

Over time, like all other transition countries, the Republic of North Macedonia improved its competitiveness by expanding its international exchange. In the last decade, with the exception of 2009 as a result of the global economic crisis and 2015 as a result of political turmoil due to the wiretapping of corruption scandals under Nikola Gruevski, both exports and imports have increased every year.

With financial support and a genuine state strategy, the North Macedonian economy can increase its competitiveness, further increase exports and mitigate the balance of payments deficit. Presence in world markets is assessed as a development factor. It provides not only the necessary scales for concatenation, but also the possibilities for measuring and cross-

referencing combinations across borders (Michael R. & Czinkotallkka A. Ronkainen, Micheal H. Moffet, 2010, p. 464).

3. Selected regions and states in which the Republic of North Macedonian goods and services are exported and imported

The EU comprises the largest share of the North Macedonian exports (82%) and imports (62%). The Republic of North Macedonia is oriented to the west and will soon open EU membership negotiations. This year it managed to join NATO. In the Western Balkans region, the North Macedonian goods take part with 11% of exports and 8.8% of imports, which can be seen from the data in the table below.

Table 1. International exchange of North Macedonia by economic groups for 2018, at (\$ 000,000)

| | Exports | Basic coeff. | Imports | Basic coeff. |
|--|-----------|--------------|-----------|--------------|
| North Macedonia | 6.907.998 | 100.0 | 9.052.195 | 100.0 |
| EU (28) | 5.670.167 | 82.1 | 5.649.550 | 62.4 |
| EFTA | 50.456 | 0.7 | 82.501 | 0.9 |
| Oil exporters state | 17.749 | 0.3 | 40.605 | 0.5 |
| Western Balkan | 760.367 | 11.0 | 799.326 | 8.8 |
| The area of North Am. | 84.946 | 1.2 | 283.099 | 3.1 |
| Economics Union in Asia and the Pacifist | 72.928 | 1.0 | 660.395 | 7.3 |
| Commonwealth | 251.375 | 3.6 | 1.536.719 | 17.0 |

Source: Statistical Yearbook of the North Macedonia, Skopje, 2019, pg. 5

As noted, the Republic of North Macedonia in the EU in 2018 has exported and imported goods with an approximate value of over \$ 5.6 billion. Over \$ 760 million has been exported to the Western Balkans region, very close to the imported value of about \$ 800 million. The other economic groups don't have an important role in the analyzed year in the international exchange in the economy of North Macedonia

Within economic groups, the contribution to the international exchange of the economy of North Macedonia varies from one country to another, which can be seen from the data in the table below

Table 2. The North Macedonian international exchange in some selective countries for 201 (in 000.000 \$)

| | Exports | Relative participation | Imports | Relative participation |
|------------------------|---------|------------------------|---------|------------------------|
| In total | 6.908 | 100.0 | 9.052 | 100.0 |
| Germany | 3.248. | 47.0 | 1.050 | 11.6 |
| Italy | 217. | 3.1 | 508. | 5.6 |
| United Kingdom | 121. | 1.8 | 863. | 9.5 |
| Bulgaria | 361 | 5.2 | 389. | 4.3 |
| Greece | 255 | 3.7 | 767 | 8.5 |
| Croatia | 101. | 1.5 | 112. | 1.2 |
| Romania | 195 | 2.8 | 311 | 3.4 |
| Albania | 89. | 1.3 | 77 | 0.8 |
| Bosnia and Herzegovina | 93. | 1.4 | 69 | 0.8 |
| Monte Negro | 35 | 0.5 | 7 | 0.1 |
| Serbia | 277 | 4.0 | 612 | 5.5 |
| Kosovo | 266 | 3.8 | 35 | 0.4 |

Source: Monthly Statistical Statements, 2019. pg. 563 – 569.

From the above data we can see that from the European countries the highest share of exchange in 2018 had Germany, which in the North Macedonian export participates with 47.0 % or expressed in absolute numbers it reaches over 3.2 billion dollars and in import participates with 11.6% or expressed in absolute numbers it amounts to over \$ 1 billion. This year, in the Macedonian exports after Germany, Bulgaria had the highest volume with \$ 361 million, followed by Italy with over \$ 217 million and Romania with \$ 194. Million or their relative participation shares were 3.7%, 3.1% and 2.8% respectively. In terms of imports after Germany, the United Kingdom had the highest volume in the year, with over \$ 863 million or a relative share of 9.5%, followed by Greece with about \$ 767 million (8.5%) and so on. In terms of the Western Balkans, the Republic of North Macedonia in 2018 had the most intensive exchange with Serbia, which in exports participates with 4.0% (\$ 277 million) and in imports it participates with 5.5% (\$ 612 million). It should be noted that Kosovo in the North Macedonian export in 2018 participated with 3.8% or absolute amount reaches around \$ 266 million, while the North Macedonia in the same year imported only about \$ 35 million from Kosovo. The Republic of North Macedonia has exported \$ 89 million (1.4%) to Albania and imported 77 million (0.8%). From the presentation of the data we notice that the economies of the Albanian lands for the North Macedonia represent additional income that is at the same time very much stabilizing economic machinery.

4. The correlation between economic development and exports to the economy of the Republic of North Macedonia in the last decade

Correlation analysis and simple regression have been applied to look at the impact of exports on economic growth in the North Macedonia. Data on GDP and exports belong to the economy of the North Macedonia for the last decade 2008/18. GDP (Gross Domestic Product) was taken as a dependent variable (y) and exports were taken as an independent variable (x). The equation that represents the model is:

$$Y = \hat{\beta}_0 + \hat{\beta}_1 X + .t$$

Hypothesis testing is:

$H_0 = 0$, between the dependent variable Y (GDP) and the independent variable X (export) there is no correlative relationship between itself ($P = 0$), and

$H_1 \neq 0$ between the dependent variable Y (PBB) and the independent variable X (export) there is a correlation between each other ($P \neq 0$)

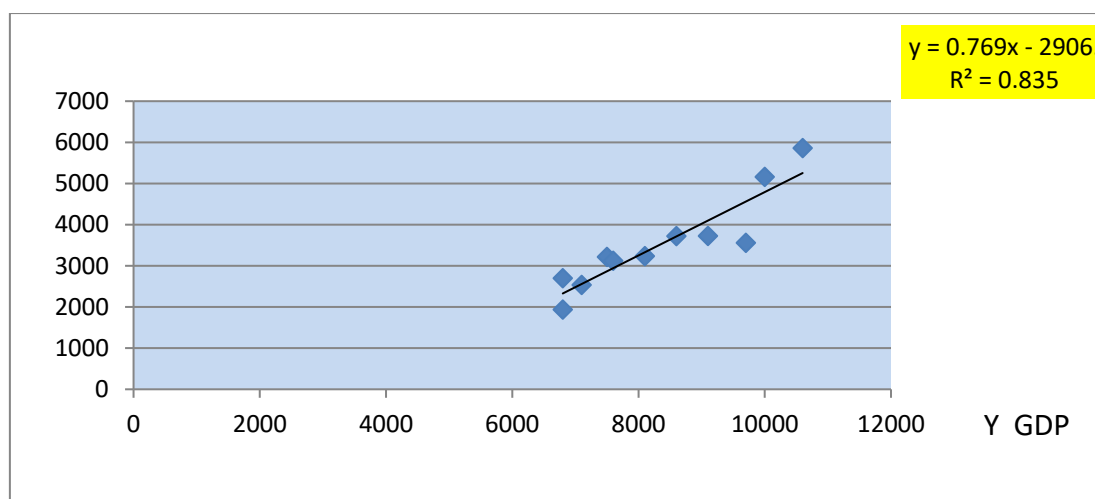


Figure 1. Correlation between GDP and exports in the North Macedonia (2008/2018)

Table 3. Coefficients of determination, standard and reliability in the North Macedonian economy, for the last decade 2008/18

| Model | Multiple | Square R | Adjustment | Standard error | |
|--------------|----------------------|----------------|------------------------------|----------------|----------------|
| | 0.913889 | 0.83519 | 0.816881 | 573.278 | |
| Model | The sum of squares | Df | Square average | F | Significance |
| Regression | 14989441 | 1 | 14989441 | 45.60942 | 8.336 E -05 |
| Residual | 2957831 | 9 | 328647.9 | - | - |
| Total | 17947273 | 10 | - | - | - |
| Coefficients | Standard coefficient | | Non standardized coefficient | Values | Value that 95% |
| | B | Standard error | Stata - t | P | P |
| GDP | 4530.404 | 592.0421 | 7.652165 | 3.15 E -05 | 3191.112 |
| Export | 1.0484863 | 0.160638 | 6.753475 | 8.33 E - 05 | 0.721475 |

From the empirical data we can see that between GDP and exports to the economy of the North Macedonia in the last decade (2008/18) there has been a real correlation. GDP depended on 83% of exports ($R^2 = 0.83519$) and only 13% from other factors ($1 - 0.83 = 0.17$). The H1 hypothesis is also confirmed: $p \neq 0$

5. Economic sectors with comparative advantages for increasing exports to the North Macedonia

For the economy of the Republic of North Macedonia, increasing the competitiveness of local companies remains a top priority. Increasing the North Macedonian exports to the international market will reduce the balance of payments deficit and intensify economic development in the mid and long term. The Republic of North Macedonia has limited resources and a modest level of economic development that does not allow for positive radical turns. Limited financial resources as well as current economic structure determine the sectors that will increase the volume of exports in the future. The economic areas that should be the carriers of exports to the North Macedonia are as follows:

The sectors of light industry such as: textile industry: leather, wood, footwear, furniture, chemical products, food, etc. which have a tradition in the North Macedonian economy. These financial resources do not require large financial resources and on the other hand absorb more labor forces, which reduces unemployment rates. Free loans in these economic fields will increase productivity and improve their competitiveness in foreign markets. Companies operating in these sectors also need state aid for financial means that would stimulate technological advancement. Low interest rate loans and financial incentives for advanced technology can increase and improve the quality of bus manufacturing in some other metal-processing fields, etc.

Technological advancement in the fields of machinery-construction, cooling equipment, electro-industry and electronics with the help of free loans as well as their cooperation with internationally renowned companies can increase the competitiveness of the international market. (Group of authors, Taki F... 1999, p, 99.) Cooperation with an external partner with a reputation in ferrous and non-ferrous metallurgy will enable the transfer of extensive production to intensive (knowledgeable material transfer) which will significantly increase exports.

In addition to the industry sectors mentioned above, exports to the economy of the North Macedonia can also be intensified in the agricultural sector has shown that countries which transfer GDP and employment from the agricultural sector to that of industry they not only provide sufficient products for the domestic market but also to export. Agricultural production in the North Macedonian economy has an extensive character, which means that productivity depends on the number of workers and natural conditions. To increase productivity, the North Macedonian agriculture must move to an intensive productive character. Of particular interest is the link between primary agricultural products and the processing industry such as: sugar, oils of plant origin, fruits, vegetables, beverages, flour, etc. To increase production in the areas mentioned above is important technological advancement, modernization of production programs, new methods of management, marketing, etc. (Zlatka P. 2000, pg. 424). Organic agricultural products are in high demand today and are a good opportunity to intensify their production in the North Macedonia.

Stimulation of traditional products is supported by every state. I believe that the North Macedonia should further stimulate products and services of this nature, which due to their distinctive properties can be attractive to foreigners.

6. Strategies for increasing exports to North Macedonia

With increasing competitiveness, exports also increase, the level of which in the North Macedonian economy remains desirable. In order to forceful the export in the future, the North Macedonia should focus on the area where it has comparative advantage, in other words, it specializes in those goods and services that have lower relative costs than its trading partners (Robert B. & Elkelund Jr. & Rand W. Ressler, Robert D. Tollison, 2006, pg. 764) Such fields are as follow:

Fulfillment of contemporary standards includes: quality, design, accuracy in terms of orders, etc. and their quality promotion can contribute to increasing the North Macedonian exports.

Reducing costs per unit of production that increases competitiveness in the international market is an objective of any economy. Currently, the North Macedonian goods and services that are exported have relatively high unit costs because the share of materials is extremely high. In

order to increase competitiveness, local companies need to transfer extensive technologies (high energy consumption and that of raw materials) to intensive ones (input such as knowledge).

Enabling manufacturing programs for good and flexible services for different kind of consumers is another very important factor in increasing competitiveness in international exchange. Such flexible programs in the North Macedonia can be easily applied to the textile industry.

North Macedonia needs clear selective policies regarding technological advancement. The lack of modern technology makes it difficult for the state to be involved in the globalization process (Pollozhani P. 2008, p. 323) and as such it is non-competitive in the international market.

Positioning towards developed markets should be the long-term strategy of international exchange of the North Macedonia, especially with the EU, which is highly developed, has high absorption capabilities and is more integrated. In previous presentations we have noticed that North Macedonia with this economic group has a higher share of trade.

7. Conclusion

The results of the research, based on international exchange, enable us to compile the final reviews in the North Macedonia. They are as follows:

The North Macedonian economy is unfolded and marks a gradual improvement in the competitive capability. Import still dominates over export and because of this reason there is a balance of payments deficit over 1.6 milliard \$. During the last decade in the economy of Macedonia there has been a proportionate increase of export and import (6.8 times to 6.0 times). The economy of the North Macedonia has realized the largest volume of exchange of goods and services in 2018 with the EU (82.1% of exports and 62.4% of imports). After the EU, the economic group with the largest volume of international trade in goods and services in the economy of the North Macedonia is that of the Western Balkans (11.0% of exports and 8.8% of imports). Other economic groups in the analyzed year do not have a special importance in the international North Macedonian exchange.

The real opportunities for increasing exports to the North Macedonia are in the light industry sectors but with technological advances and free loans. Companies in these economic fields also need international arrangements with the help of the state for them to penetrate foreign markets. Free credit stimulus can also affect the increase in production and export of certain areas such as manufacture of buses and some other metal-processing fields.

Agriculture can also have an advantage in increasing exports. The connection of primary agricultural products with sugar processing industries, oils of vegetable origin, production and processing of fruits and vegetables, flour processing industry, slaughterhouses, beverages, etc. can increase the North Macedonian exports. Attractive can also be the fields of electro-industry. For the increase of production in the fields mentioned above, it is important technological advancement in the production process. Improvement of production programs and mastering new methods of management and marketing Agricultural products of non-polluted countries today are highly demanded by developed countries and this is a good opportunity to intensify agricultural production.

To intensify the North Macedonia exports should focus on the following activities:

- Positioning in improving quality, design, advertising, order accuracy, etc.
- Positioning in cost reduction per unit of production, moving from extensive to intensive technology.
- Positioning in the training of production programs in the light industry, especially in textiles, which enable flexible products for different layers of consumers.

- Positioning towards products and services which consume smaller amounts of energy resources.
- Positioning towards developed markets, especially the EU.

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