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EMPRICAL EVIDENCE ON FOREIGN DIRECT INVESTMENT IMPACT UPON THE ECONOMIC GROWTH OF THE REPULIC OF MACEDONIA

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Abstract

In regard of indicators on positive business climate and hospitability for foreign investors, last year the World Bank ranked Macedonia on the 23rd place out of 183 countries in the world (World Bank, 2013). *Other reports of eminent world organizations and institutions ranked the country on fairly good position in the world economy as one of the fastest reforming countries able to control the level of foreign debt. Nevertheless, during the last two decades the economy has never experienced real economic growth. Hence, with GDP of less than 10 billion USD, Macedonia happens to be one of the poorest countries in Europe. Despite all of the efforts of the Government to attract foreign investment, the economy recorded only 4.382 billion American dollars of FDI stocks at the end of 2012 (www.nbrm.mk). Due to the very limited domestic market, poor infrastructure and low consumption potential, foreign investors were attracted only to those industries which were in a position of a natural monopoly on the market. Trying to maximize their profits, they were not interested in investing in new technologies or in creation of export platforms for placing the realized output to the Western markets.*

Through analysis of all available and official statistical data in the Republic of Macedonia, this article will try to analyze the structure of the attracted FDI in the country their effects upon the total industrial output, the restructuring of the economy, the creation of new jobs and decrement of the unemployment rate, as well as upon the competitiveness and the export potential of the country. Finally, it would try to identify the major causes for the up-to date recorded poor results.

Key words: Republic of Macedonia, foreign direct investment, economic restructuring

1. INTRODUCTION

Twenty years since proclaiming independence, Macedonia has attracted 4.382 billion American dollars foreign direct investment. With only about 200 American dollars FDI per capita, the country seems to be among the most unattractive economies for foreign investors in the region of South-Eastern Europe (www.nbrm.mk). For comparison, at the end of 2005, the Czech Republic managed to attract 60 billion American dollars of FDI, Romania 24 billion American dollars, and Croatia 12.5 billions (*Kapital*, March 2013, p.10).

All of the governments in the past were really putting a lot of effort in attracting the attention of foreign investors and in creating friendly business environment. Actually, they all believed that foreign investment was the optimal solution for overcoming the obscure national accumulation and for accelerating the investment cycle in the economy which was in the process of transformation towards fully functioning market economy. Due to the inherited debt from the previous system, fresh capital could not be brought into the economy by additional borrowing either from international or from private financial sources. Therefore, the authorities implemented a lot of reforms in the legislation, judicial and institutional system in order to ease the entrance of foreign capital and to provide guarantees of foreign investors' private property.

Several years ago Macedonia became the third country in the world measured by the number of implemented reforms. In fact, from the view point of the stability of the economy and the friendly business climate Macedonia was better ranked than some South-Eastern countries according to some of the international rankings.

Table 1

Doing Business ranking of some South-Eastern countries in 2013

Country	Rank
Macedonia	23
Slovenia	35
Slovakia	46
Montenegro	51
Poland	55
Bulgaria	66
Turkey	71
Greece	78
Croatia	84
Albania	85
Serbia	86
B&H	126

Source: The World Bank, Doing Business Report 2013, The World Bank, Washington D.C., 2013

Data presented in Table 1 were used from the latest World Bank Report *Doing Business,* where Macedonia was ranked on the 23rd place and had a better position in comparison to all of its neighboring countries on the Balkans, but also to countries from Central and Eastern Europe that have already become members of the European Union. According to the same source, Macedonia compared to 183 economies, improved its rank for 9 places in three years, as in 2010 it was ranked on the 32nd position (see: The World Bank, 2010 and The World Bank, 2013).

Macedonia deserved the high ranking by providing reforms on facilitation of the entrance of foreign capital and guarantees of foreign investors' rights. At the beginning of the transition the government decided to use discretional rights to approve various incentives on a case-by-case based approach regarding the importance of the project and the possibility of establishing strategic partnerships (Kikerkova, I., 2011, p.270). During the last decade there was further improvement of the business climate by implementation of tax reforms and decrement of the corporate tax rate, as well as the rate of various contributions due to be paid by the companies, such as the retirement rate, health and unemployment contribution rate; facilitation of the business start-up procedures with duration of only 8 days; facilitation of obtaining construction permits procedures; registration of property; getting credit information; protecting investors' rights; payment of taxes by internet; employment of workers with fixed term contracts and elimination of work-time restrictions. In 2008 the new Law on Construction Land was enforced which allowed purchases and foreign ownership of construction land under a public tender bidding procedure. At the same time, the restrictions to foreign investment in the financial sector and insurance were abolished (www.finance.gov).

Other international rankings are not evaluating the Macedonian economy as well as the World Bank reports. Last year on the Foundation Heritage List, Macedonia found itself on the 43rd place according to the Economic Freedoms Index. At the same time, the Competitiveness Report published by the Economic Forum in Davos ranked the country on the 80th place in the world from the view point of the competitiveness of the economy (*Kapital*, 2013, p. 20). These rankings explicitly refer to the weak economic capacity of the country and its performance which is evaluated to be beneath its real economic potential. Issues evidenced as an obstacle for domestic investors are certainly an obstacle for foreign investors, too.

Lately, domestic sources also provided research on foreign investors' opinion on the business climate in Macedonia. According to their answers, the cheap labor force; the low taxes; the easy and fast registration procedure of new firms; the quick issuing of various licenses and working permits, were pointed out as the biggest strengths of the economy. On the other hand, speaking about the weaknesses, they pointed at the poor road and railroad infrastructure, lack of access to capital, inefficient public administration, the problem of corruption within institutions of the system and slow judiciary system (www.mchamber.mk).

2. INFLOW AND STRUCTURE OF FDI IN THE MACEDONIAN ECONOMY

2.1. Inflow of FDI in the period 1992-2012

Just after the proclamation of independence the government in Macedonia passed over 40 different laws in order to improve the business climate for foreign private investors, as well as to guarantee their rights. It also proclaimed discretional rights on a case-by-case based approach in choosing foreign investors for different domestic industries. In the first half of the 90's, however, there were almost no inflows of FDI in the economy, due to many economic and political reasons. The beginning of the privatization process in the economy coincided with very unpredictable economic and political environment not only in the country, but in the whole region as well. The many wars that affected the former Yugoslav republics had a very negative impact upon the Macedonian economy that despite of everything had to continue with the reforms towards a full market economy and with the privatization process. The country was put under a tremendous political pressure, as it was objected to be recognized under its constitutional name within the United Nations until 1996 when it made a compromise and was accepted under the reference Former Yugoslav Republic of Macedonia. Facing severe macroeconomic instability, lack of foreign exchange and a huge inherited debt from the former Yugoslav state, the country had to provide shelter for the refugees from Bosnia and Herzegovina at the beginning of the 90's, and from Kosovo at the end of the decade. In the meanwhile it also had to deal with two embargoes – the first one imposed by Greece because of the name issue, and the second imposed by the UN over Serbia (the biggest

Macedonian trading partner in the region) because of the war in Bosnia. Therefore, in 1996 FDI stocks amounted only about 46-48 million American dollars (Kikerkova, I., Skopje, 1998, p. 108).

Until the end of the 90's about 80% of the privatization process was accomplished. The economy overcame the hyperinflation and regained economic stability. Regardless of the fairly convenient values of the most indicators on the transition progress (EBRD, 2000) the country was ranked as the least attractive transition country for foreign investors. Actually, it was ranked worse than Albania, which was assessed with very poor grades on most of the transition indicators at that time.

At the beginning of 2000, Macedonia received only 250 millions American dollars of FDI (Kikerkova, 2006, p. 167). At that time the government was trying to find solution for the big companies in the metal and non-metal processing industry that were registered as the so called *10 great loss-creators in the economy*. These companies could not be privatized with domestic capital. Therefore, the government adopted the strategy *pay a dollar less*, which meant that it was ready to sell these plants even for one dollar if there was an investor who was willing to buy them. For amounts between 3and 30 million dollars foreign investors acquired the state monopolies in the production of steel and steel products, petroleum and petroleum derivatives, ferrous-nickel and cement. Foreign capital established control over the biggest brewery *Skopska pivara* from Skopje and over one of the biggest commercial banks – *Stopanska banka, A.D.* from Skopje (Kikerkova, 2006, p.167).

The greatest inflow ever registered in the Macedonian history was realized in 2001 when the government sold the Macedonian Telecom to the Hungarian MATAV and therewith FDI created 13% of the nominal GDP of the country. Other important foreign investments in the period from 2005-2008 were the acquisitions of the mains *Bucim, Sasa, Toranica* and *Zletovo,* and the investments of *Johnsons Controls* and *Swedmilk* as greenfield investment. However, each of these investments was small in its total amount and the percent of participation of FDI in the GDP was far below the pick reached in 2001. The second biggest pick was registered in 2008 when the Austrian *EVN* invested in the privatization of a part of the state monopoly for production and distribution of electricity – *Elektrostopanstvo* from Skopje (Kikerkova, I. in Antevski, M., 2011, pp. 275-276).

In the period from 2007 up-to-date the government changed the strategy on foreign direct investment and started to promote the economy as amiable for foreign investors, which was supported by creation of systemic preconditions within the so-called *Technological Industrial Development Zones*. In these special zones foreign investors are stimulated to make greenfield investments by gaining various tax and customs incentives and deductions, free access to important infrastructure for the purpose of construction of plants and other conveniences if their production is going to be exported to foreign markets (*Official Gazette of the Republic of Macedonia*, No. 82/08, 2008).

Nevertheless, the ratio of FDI inflow in Macedonia as percentage of BDP is continuously low. Data presented in Table 2 point out that except of the two peaks in 2001 and 2008, the FDI inflow in Macedonia created approximately 2.5% of the GDP per year. For comparison, during the passed two decades most of the attractive South-Eastern economies have realized FDI inflow which created approximately 25% of their GDP per year.

Table 2

FDI inflow per year and FDI as percentage of the GDP in the Republic of Macedonia (in million American dollars)

Year	FDI inflow	Nominal GDP	FDI as % of GDP
1998	150.5	3580.8	4.2%
1999	88.4	3673.5	2.4%
2000	215.1	3578.9	6.0%
2001	447.1	3436.7	13.0%
2002	105.6	3788.8	2.8%
2003	117.8	4631.2	2.5%
2004	323.0	5368.4	6.0%
2005	97.0	5987.1	1.6%
2006	424.2	6558.3	6.5%
2007	699.1	8159.9	8.6%
2008	587.0	9834.0	6.0%
2009	197.1	9313.6	2.1%
2010	295.8	9159.9	3.2%

Source: Calculated on data published by the National Bank of the Republic of Macedonia (www.nbrm.mk)

The ratio of FDI as percentage of GDP in 2011 and in 2012 is even lower than in the previous years. As a consequence of the economic crises in the EU, foreign investors started to withdraw money in the form of loans from their affiliations in Macedonia. At the same time the amount of reinvested profit in the economy decreased substantially. Therefore, in the last two years the amounts of outflows of capital were greater than the inflows of capital and the country. In 2012 the amount of invested FDI created only 1% of the national GDP (www.nbrm.mk).

2.2. Changes in FDI structure in the period from 1992-2012

By the end of 2000 about 70% of FDI were effectuated in manufacturing, metal-processing, cement production, crude oil, food and beverages, textiles, and banking and insurance. As the invested amounts were rather small, one bigger investment was able to significantly affect the whole FDI structure and cause significant sector shifts. Only one investment by the Hungarian *MATAV* of 322.6 million American dollars in the Macedonian *Telecom* was enough to shift the FDI structure from the manufacturing in favor of the services sector. The services sector became dominant regarding the total FDI inflow in the country (Kikerkova, I., 2001, p. 220).

Table3:

Economic structure of invested FDI in the Republic of Macedonia
in the period from 2003-2009* (in millions euro)

Sector	2003	2004	2005	2006	2007	2008	2009*	Total
Agriculture/fisheries	1.59	8.38	-0.84	2.13	10.46	3.89	0.02	25.63
Mining/extraction	-1.87	6.77	16.44	0.60	8.92	0.94	-4.3	27.50
Manufacturing	28.50	158.31	19.53	99.40	126.80	33.01	57.83	523.38
Electricity /gas/ water	-0.02	2.11	-0.03	119.20	-3.57	41.19	18.32	177.26
Construction	10.63	-0.25	0.01	3.27	14.80	22.54	0.35	51.35
Services	65.55	84.60	42.90	118.87	339.01	268.75	71.65	991.35
Unallocated	6.14	1.14	0.91	1.32	9.58	0.72	-0.30	19.51
Sub-total	94.27	259.54	76.30	343.47	496.40	370.32	144.65	1,785.40
Undistributed/reinvested profit	-	-	-	-	-	41.50	-17.09	23.60

*Note: Data on 2009 are calculated only for the first six months of the year

Source: Ministry of Finance of the Republic of Macedonia, Bulletin August 2009, Ministry of Finance of the Republic of Macedonia, Skopje, August 2009, p. 28

Data presented in Table 3 confirm that until 2009 the services sector was slightly more attractive for foreign investors than the manufacturing sector. At the end of 2009 the services sector managed to attract 50% of total FDI in Macedonia.

However, the manufacturing sector, the production of electricity and gas and construction were continuously narrowing the gap and together with agriculture and mining also managed to create almost 50% of the total FDI in 2009. Within the manufacturing sector the most attractive industries were the metal-processing industries and the production of mechanical products (Ministry of Finance of the Republic of Macedonia, August 2009, p. 29).

Table 4 presents the percentage of greenfield investment and mergers and acquisitions in the total FDI inflow in the period from 1997 until 2011.

Table 4

Structure of acquisitions and mergers and greenfield investment in the total FDI

Year	Acquisitions & mergers	Greenfield investment	Total FDI (in millions euro)
1997	66.02%	33.98%	107.79
1998	80.25%	19,75%	226.11
1999	77.35%	22.65%	294.36
2000	78.42%	21.58%	517.40
2001	46.68%	53.32%	1027.17
2002	52.43%	47.57%	1138.57
2003	52.69%	47.31%	1246.37
2004	53.99%	46.01%	1395.50
2005	55.70%	44.30%	1624.34
2006	59.43%	40.57%	1949.84
2007	61.32%	38.68%	1359.21
2008	62.32%	37.68%	2540.74
2009	59.87%	40.13%	2610.33
2010	62.84%	37.16%	2729.53
2011	61.26%	38.74%	3185.29

Source: Calculated according data published by the national Bank of the Republic of Macedonia, www.nbrm.mk

Data presented in Table 4 confirm that acquisitions were and still are the most frequent form of FDI in the Macedonian economy. This structure experienced certain shift in the last 8 years in favor of greenfield investment when two foreign investors - *Johnson's Matthey* and *Johnson's Control* - entered the production of mechanical products industries by establishing new plants within the Technological Industrial Development Zone *Bunardzik* situated near the capital city of Skopje (Ministry of Finance of the Republic of Macedonia, August 2009, p. 30). Previously, greenfield investments were realized in the food-processing industry and textiles. However, these investments were rather small and they helped the establishment of small plants only that usually engaged 20-50 employees. Most of them were made by Greek investors in the south-western part of the country. They created less than 1/3 of total FDI in Macedonia by the end of 2000 (Kikekrova, I. in Jovanovic, R., Sevic, Z. eds., 2006, p. 170). However, the acquisition of the state monopoly in production of electricity by the Austrian EVN caused a new significant shift of the structure of effectuated FDI in the economy in favor of acquisitions and mergers.

Table 5

Leading ten foreign investor-countries in the Republic of Macedonia (31.12.2011)

Country	FDI stocks in mil. euro	Percentage of total FDI stocks
Netherlands	745.00	20.41%
Austria	416.76	11.42%
Slovenia	405.66	11.12%
Greece	390.48	10.70%
Hungary	346.57	9.50%
St.Vincent and Grenadine	139.16	3.81%
France	131.50	3.60%
Switzerland	126.40	3.46%
Bulgaria	120.29	3.30%
Turkey	117.23	3.21%
Other	710.42	19.47%
Total:	3,649.47	100.00%

Source: www.nbrm.mk

Data presented in Table 5 point out that about 90% of total FDI in the Republic of Macedonia have European origin. The Netherlands gained the leading position as foreign direct investor by investing in transport communication and warehousing in 2009. At the end of 2011 the FDI originated from Netherlands reached a total of 745 millions euro, which created 20.4% of the total amount of FDI stocks in the country. The second place belonged to Austria, which had 416.8 millions euro (11.42% of total FDI stocks) and the third to Slovenia with 405.7 millions euro (11.12% of total FDI stocks). These three countries created over 43% of the total amount of FDI effectuated in Macedonia by the end of 2011 (www.nbrm.mk).

3. BUSSINES CLIMATE AND EFFECTS OF FDI UPON THE MACEDONIAN ECONOMY

The business climate in a country is affected equally by economic and political influences. The analysis of the economic factors points out that Macedonia is among the first five countries in the world which disposes with one of the simplest procedures of opening of a new business. Better ranked than Macedonia are only Singapore, Canada, Australia and New Zealand (World Bank, 2013). The World Bank Report *Doing Business*, which evaluates the progress of the economies in regard of 10 different indicators, last year found out that Macedonia realized the biggest progress in facilitation of the procedures of obtaining construction licenses. In the last 7 years the number of procedures on issuing of a construction license was cut down to half - from 20 to only 10 procedures. The duration of this procedure at present is 117 days, while in 2005 it lasted 244 days. The costs for obtaining a construction license amounted 2,439% of the average personal income, while at present they reach 518%, which can be considered as significant improvement. Also, the procedure of obtaining the company's seal was substantially simplified and the economy became one of the places in the world where it is the easiest to open a new businesses. At the same time the country is ranked among the most liberal economies for registration of small and medium-size enterprises and belongs to the rank of Germany, Japan, Estonia and Latvia. However, companies are still facing different challenges when it comes to trade and obtaining connection to electricity (World Bank, 2013).

The country is facing low competitiveness (evaluated with 4) and was ranked on the 80th place in the world economy. Actually, last year Macedonia got the same grade in competitiveness as Croatia. Talking about competitiveness, there was an improvement in availability of financial services, facilitation of government regulative, quality of air-transportation, and bank security. The biggest worsening, however, the Macedonian economy experienced in regard of the inflation rate, as at the end of 2011 it reached 3.6%. This meant that Macedonia did not belong any more to the group of countries with an average growth of prices between 0% and 2%. The worsening of indicators on competitiveness was also significant in regard of the implementation of new technologies, research cooperation between universities and companies and capacity for innovations (*Kapital,* March 2013, p. 21).

Although the economy was ranked as one of the fastest reforming in the world, the low level of foreign, but also of domestic investment clearly points out that the business climate is far from satisfactory. The most often stressed weaknesses of the economy happen to be the very limited market scope, the poor road and rail-road infrastructure, the inconvenient economic structure with dominant traditional industries that create low added value and have weak accumulation capacity, the weak protection of private ownership rights, various administrative and red-tape barriers, corruption, and inaccessibility of financial means for growth of businesses. Yet, this is only one side of the medal of the challenges in the real economy. The other side concerns political challenges which are mainly due to the interference of political parties in the economy and imposition of various administrative and red-tape barriers to managers who are not belonging to the political parties close to the position (*Kapital*, March 2013, p.24).

The acting of foreign investors in the past two decades undoubtedly confirmed the low capacity of the Macedonian economy. The small amount of attracted FDI is not the only negative issue. Even more important is the fact that foreign investors appeared to be mostly interested in acquisitions of companies that were in a position of a natural or a state monopoly at the domestic market. In order to realize investment in such companies most of them demanded extra guarantees from the Government which would secure their dominant position for a certain period of time and would enable them to make their investments worthwhile and to realize monopolistic profits from local customers. The lack of interest in investment not only by foreign investors, but also by the domestic ones, enabled foreign companies to acquire local companies at prices far below their real market value. Thus, with a very low level of investment foreign investors managed to acquire and gain dominant ownership of 51% of the 100 biggest companies in the Republic of Macedonia. The rest of the 100 biggest companies in the country consisted of companies with dominant domestic ownership (33%), 8% were fully owned by the state and another 8% were in non-dominant domestic ownership (www.statistics.gov.mk).

Once provided with dominant position on the Macedonian market, foreign investors are not interested in making additional investments and technology transfers, nor are they interested in spreading the business and opening new working posts. Instead, they claim that Macedonian companies suffer from over-employment and soon start with dismissal of the already employed workers. In many of the acquired firms the number of employees was cut down to almost 1/3 after several years of the entrance of the foreign capital. Nevertheless, companies with foreign capital employ substantial portion of the human capital in the country. For example, the companies with foreign capital from the rank of the 100 biggest companies in the country, which employ a total number of 45,870 employees, create 40% of the total working posts in these companies with 18,345 employees. At the same time, the state companies that represent 8% of the 100 biggest companies in Macedonia, employ 12,975 employees and thereby create 1/3 of the total number of employees in the above mentioned rank (*Kapita* , 1st of July, p.15). The amount of realized profit per employee in the companies with foreign capital from the top 100 companies in the country is 18,000 euro per year. The state companies from the 100 biggest companies however realize only 1,231 euro per employee per year (*Kapital,* 1st of July, pp.17-18).

The profitability of the companies in foreign ownership was not a result of the improvements in their performance or the transfer of new technologies and new managerial skills and practices. As stated before, foreign investors basically entered services (including the financial and insurance sector) and, by putting minimal effort for insignificant improvement of the quality of provided services, realized maximal profits by keeping up monopolistic prices for their products on the maximal level sustainable for Macedonian customers. Most consumers on the Macedonian market complain that almost in each segment of the economy they have to pay European prices or even more for substandard quality of products and services. However, this enables the companies with foreign capital to be highly profitable. They make a turnover of about 3 billions euro per year which is double the amount of the turnover of the companies in domestic private ownership (*Kapital,* 1st of July, p.18).

Satisfied with the monopolistic position on the domestic market and with the high profit rates foreign investors are not interested in enhancing export from Macedonia. Actually, only 11% of the registered companies are involved in the manufacturing industries which create 90% of the total Macedonian export, and only 5% of the active companies are exporting. From the range of exporting companies, the top 10 companies in the country, from which 8 are in foreign ownership, realized export of about 2 billion American dollars and created 40% of the total Macedonian export of goods in 2010. Only four of them – FENI Industry, Johnson Matthey, the OKTA – Refinery and Arcelormittal - realize exports of over 100 million American dollars per year (www.statistics.gov.mk).

Table 6:

Top 20 exporting companies with foreign capital in the Republic of Macedonia

Rank	**Company**	**Sector**	**Foreign investor**
1.	OKTA – oil refinery	petroleum	Hellenic Petroleum/Balkanic Petroleum – Greece/Cyprus
2.	EVN	electricity	EVN Group - Austria
3.	FENI - Industry	metal-processing	Beny Steinmetz Group - Netherlands
4.	Macedonian Telecom	telecommunication	Kamenimost komunikacii (in liquidation), Government of RM, Macedonian Telecom, AD - Hungary
5.	T-Mobile Macedonia	telecommunication	/ - Hungary
6.	Johnson Matthey	chemicals	Johnson Matthey – Great Britain
7.	Arcelormittal - Skopje	metal-processing	Arcelormittal Holding AG - Netherlands
8.	Makstil	metal-processing	Duferco Skop Investment Ltd. - Switzerland
9.	Euro Tabak	tobacco	/ - Russia
10.	Lukoil - Macedonia	petroleum	Lukoil - Russia
11.	Sasa	mining	Solvej - Russia
12.	EFT Macedonia	trade in electricity	EFT Holding - Great Britain
13.	USJE Cementarnica	construction materials	TITAN Cement Netherlands B.V - Netherlands
14.	Pivara Skopje	beverages	Brewtech B. V., Brewtrade, BV&M6 - Netherlands
15.	Kamenimost komunikacii (in liquidation)	consultancy	/ /
16.	ONE	telecommunication	Telecom Slovenia - Slovenia
17.	Imperial Tobacco TKS	tobacco	Imperial Tobacco Group Ltd. – G. Britain
18.	Veropulos	trade	Nikos Veropulos - Greece
19.	Dojran Stil	metal-processing	Sidenor SA - Greece
20.	Porshe Macedonia	trade	/ - Germany

Source: Kapital, Business Magazine Nr. 609, Kapital Media Group (published in Macedonian language), Skopje, the 1st of July, 2011, pp. 16-17

Looking at the list of the top 20 biggest exporting companies, presented in Table 6, it is evident that the leading positions belong to the companies in the metal-processing industries, followed by companies in the extracting/mining industry and by companies in the tobacco industry. More than half of those companies are in foreign ownership and they all export commodities with a low added value. The average annual rate of growth of exports in Macedonia is 9.6% and it is about two times lower than the rate of growth of exports in Serbia, Bulgaria, Slovakia or Turkey (www.mchamber.mk).

The leading exporting companies from the country are the biggest importers as well, as most of them depend on import of raw-materials. Only few of the top 20 companies in the country process domestic raw materials. It is important to point out that total import registers higher annual rate of increment in comparison with the annual rate of total exports. This is deepening the existing deficit in the trade balance (www.investinmacedonia.com).

It is also important to point out that since the beginning of the economic crisis in 2008 the net-value of the capital outflow from the country has been increased, as foreign investors have been pulling out the realized income in their Macedonian companies and the reinvested income decreased substantially. This is creating additional negative effect upon the balance of payments and it is further deepening the balance of payments' deficit.

4. CONCLUSION

At the beginning of the transition many foreign investors pointed out that each of the economies on the Balkans had a very limited capacity for attraction of FDI. Foreign investors were interested to invest their capital only if it could not be used for the satisfaction of consumer needs within the region.

Nevertheless, the Macedonian economy performed under its real potential. It is true that almost a whole decade Macedonian exporters were openly discriminated on foreign markets. But it is also true that this was not the main obstacle for Macedonian exporters. Much bigger problem for potential investors that were export-oriented was the lack of good road and rail-road infrastructure that would connect the country with its neighbouring countries and through them to Western markets. In fact, there is only a north-south rail-road connection of Serbia through Macedonia with Greece. There is no rail-road towards Bulgaria, neither to Albania, and the road infrastructure in the eastern part of the country is especially poor. The only port that Macedonia is using for export of its goods is in Thessalonica – Greece and exporters have many times problems to get to it from various reasons. The new political divisions in the region put additional border-crossings and each of them has established its special procedures which complicated export and transport procedures, and made transport of goods via ex-Yugoslav parts more expensive and less efficient than previously. This was the main reason why "good-intended" investors left out and remained only those interested in the big state-owned monopolies which did not provide an impulse for economic growth and development.

There were also a lot of problems in full implementation of the rule of law and securing investors' rights. Almost all of the Reports of the European Commission evaluating the progress in the candidate status of the country towards full EU-membership point out the inefficiency of courts, the need of reform of the judicial system and the problem with corruption.

However, it is evident that investors who effectuated capital investments in Macedonia are not interested in spreading their operations on regional level. The top 10 companies in Macedonia, from which 8 are with dominant foreign ownership, realize bigger total income per year only in comparison with the top 10 companies in Montenegro. Serbian, Croatian and Slovenian top 10 companies realize from 5-6 times bigger total incomes than the Macedonian top 10. At the same time, only five of the top 10 companies in Serbia, 3 in Croatia and 2 in Slovenia have dominant foreign ownership. None of the Macedonian top 10 has invested in the region, which is quite the opposite in the case of Slovenia and Croatia. In Slovenia 8 companies from the top 10 are especially active on regional level, while in Croatia 3 of those companies are making strategic investment in the region. Even in Serbia one of the top 10 in foreign ownership is regionally active (*Kapital*, 18th of January, 2012, pp. 13-15).

Considering the actual economic situation in the world and the untypical challenges that Macedonia is facing in the processes of obtaining NATO and EU membership it is hard to believe that the economic situation and the attractiveness of the economy for FDI is going to change in a near future. Actually, disinvestment has already started in almost all Balkan countries, regardless of their status in the EU-integration process, such as Slovenia, which is almost 10 years a full member of the EU, and Croatia, which has just become a full EU member. Perhaps it is time to make a joint regional research in order to detect the real causes for this negative trend.

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