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SUCCESS OR FAILURE OF THE IMPLEMENTED STRATEGY ON ATTRACTING FOREIGN CAPITAL IN THE FORM OF FDI IN THE REPUBLIC OF MACEDONIA

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Abstract

The actual strategy on attracting FDI in Macedonia was first implemented about 8 years ago. It is based on the creation of special zones (Technological Industrial Development Zones – TIDZ) which are exempted from the regular customs and fiscal area of the economy. Companies performing within the TIDZ are benefiting from abundant incentives and subsidies if their output is exported to foreign markets. The government, beside the lawfully published incentives available for the investors within the TIDZ, silently kept its discretionary rights to provide additional incentives on a case-by-case approach in negotiations with strategic foreign partners. However, with FDI stocks of only about 4.900 million American dollars, which is slightly more than 250 American dollars per capita, Macedonia remains to be among the least attractive countries for foreign investors in Europe. After 8 years of implementation of this strategy the government makes an open propaganda on its positive results. Economists in the country, however claim that its results are very disputable, especially because almost all important data needed for the analysis of its total economic effects are either not available or are not given transparently. Therefore, the total costs of the expensive promotion campaign of the strategy can only be estimated. But the implications of the strategy are also not satisfactory in terms of its effects upon the employment rate, technological spill-over, state-budget sustainability and sustainability of the long term economic growth. The gravity of the consequences of the implemented strategy on FDI attraction deserves an effort on its analysis by all available means, as well as publication of the results thereof.

Keywords: Republic of Macedonia, foreign direct investment, FDI-strategy, Technological Industrial Development Zones (TIRZ), sustainable economic growth

1. INTRODUCTION

The Macedonian economy faced a lot of challenges in the past 25 years. Among the biggest ones was finding new sources for financing economic growth and development. Facing a serious lack of domestic accumulation and no access to international capital borrowing, like all the small economies on the Balkans and in Europe, Macedonia started to compete to attract foreign investors' interest. Being a land-locked economy with a very limited domestic market, weak economic performance, troubled with a lot of economic and political challenges throughout the transition period, Macedonia seemed to be the least attractive economy for foreign direct investment within the region. At the beginning of the century, the privatization process was almost completed which was considered to be the basis for the entrance of foreign capital in the form of FDI. Almost immediately it was evident that foreign investors were not interested in effectuation of green-field investment. They rather looked for the opportunity of taking control over companies that were in a position of a natural or a state monopoly on the domestic market. Such companies were overtaken with minor amounts of foreign investment. Foreign investors were not interested in investing in renewal of the applied technology or in enhancement of productivity, as they were interested only in the possibility of skimming off profits from the gained dominant position in the economy.

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 (Kikerkova, 2011, p. 275).

The second biggest pick in FDI 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 and created almost 8% of the nominal GDP (Kikerkova, 2011, p. 276).

Nevertheless, the ratio of FDI inflow in Macedonia as percentage of GDP was continuously low throughout the whole first decade of the new century. Except of the two picks in 2001 and 2008, the FDI inflow in Macedonia created approximately 2.5-3% of the GDP per year (see Table 1). For comparison, during the same period the most of the South-Eastern economies attracted a FDI inflow which created approximately 25% of their GDP per year (Kikerkova, 2013, p. 14).

Table 1

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. <http://www.nbrm.gov.mk>. Accessed March 2011

The ratio of FDI as percentage of GDP in 2011 and in 2012 worsened even further. 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, the amounts of outflows of capital were greater than the inflows of capital in the economy. In 2012 the amount of invested FDI created only 1% of the national GDP (Kikerkova 2013, p. 14).

The low interest of foreign investors to invest in Macedonia made the government rethink its strategy and its policy on attracting FDI. In 2008 the government decided to revive the several years old idea on creating special free economic zones as exemption from the customs and the fiscal area of the country. Although the legislation was in place and there were provided additional incentives and facilitation for foreign investors that would be willing to invest in the zones in export oriented production, the free economic zones never became operational. Therefore, the government decided to create a new law, where the incentives were increased and modified, and the zones were renamed into Technological Industrial Development Zones (TIDZ). It also introduced other reforms of the legislation that was directly or indirectly affecting FDI in order to create a friendly business climate for foreign investors. The government decided

to keep discretionary rights while negotiating and providing additional facilitation and subsidies to potential foreign investors within TIDZ and started an aggressive campaign of promoting investment opportunities of the country.

The paper points out to the most important legal provisions affecting foreign investors and the Law on TIDZ, the realized inflow of FDI after the change of the country's legislation and the real economic effects that have been evident from the functioning of TIDZ up-to-date.

2. THE LEGAL FRAMEWORK ON FOREIGN DIRECT INVESTMENT AND THE BUSINESS CLIMATE IN MACEDONIA

The legal environment in the country is designed for the needs of a small and open economy, in which the average nominal tariff rate is slightly over 2%, while traditional non-tariff barriers to trade are not implemented. During the past 25 years the legal environment has been reformed intensively and continuously, providing a legal frame-work that is non-discriminatory for foreign investor. Several years ago it also provided a wide liberalization in the financial sector.

The reforms for facilitating the start – up of businesses and creating a more friendly climate towards foreign investors intensified in the last five years. Actually, according to the World's Bank *Doing Business* report for 2014/2015, Macedonia was ranked on the 3rd place in the world in regard of the “starting a business” indicator. Additional progress of 31 places was recorded in the area of paying taxes due to the mandatory VAT payment via the e-tax system and the increased usage of the electronic system. Macedonia remained among the top reformers globally being ranked on the 30th place in this year's report. The country also moved closer to the best global practices, a more important measure of progress than the ranking, as it does not depend on the relative performance of other countries (World Bank, 2015). In Table 2 a review of the latest reforms in favor of foreign investors according to the World Banks' *Doing Business Report 2014/15* is presented.

The legal system does not provide a single law on FDI. The legal framework on FDI is created by a number of different laws such as: the Companies' Law, the Securities' Law, the Profit Tax Law, the Law on Personal Income Tax, the Law on Value Added Tax, the Law on Foreign Trade, the Law on Takeovers, the Law on Foreign Exchange, the Law on Investment Funds, the Banking Law, the Law on Supervision of Insurance, the Audit Law, etc.

Table 2

Business Reforms in Macedonia according to *Doing Business Report 2014/15*

Dealing with construction permits: DB 2014	Macedonia made dealing with construction permits easier by reducing the time required to register a new building and by authorizing municipalities to register buildings on behalf of owners.
Starting a business: DB 2015	Macedonia made starting a business easier by making online registration free of charge.
Registering property: DB 2014	Macedonia made property registration faster and less costly by digitizing the real estate cadastre and eliminating the requirement for an encumbrance certificate.
Getting credit: DB 2014	Macedonia strengthened its secured transactions system by providing more flexibility in the description of assets in a collateral agreement and in the types of debts and obligations that can be secured.
Protecting investors: DB 2015	Macedonia strengthened minority investor protection by requiring prior review of related party transactions by an external auditor.
Paying taxes: DB 2014	Macedonia made paying taxes easier for companies by encouraging the use of electronic filing and payment systems for corporate income and value added taxes.
Getting electricity: DB 2014	Macedonia made getting electricity easier by reducing the time required to obtain a new connection and by setting fixed connection fees per kilowatt (kW) for connections requiring a capacity below 400 kW.
Resolving insolvency: DB 2015	Macedonia made resolving insolvency easier by establishing a framework of electronic auctions of debtors' assets, streamlining and tightening a time frames for insolvency proceedings and the appeals process

Source: *Foreign Investors Council & the Economic Chamber of the Republic of Macedonia. 2014. The White Book 2014. Skopje: Foreign Investors Council & the Economic Chamber of the Republic of Macedonia. 18*

Being a member of the WTO since 2003, Macedonia have respected and implemented all provisions of the Agreement on Investments in its legal system. Additionally, it has signed about 30 bilateral Investment Protection Agreements, 13 of which are with members of the Organization for Economic Cooperation and Development (OECD). Among those who have signed such agreements are: Austria; Albania; Belgium; Belarus; Bosnia and Herzegovina; Bulgaria; China; Croatia; the Czech Republic; Egypt; Finland; France; Germany; Hungary; Iran; Italy; India; Korea; Malaysia; The Netherlands; Poland; Romania; The Russian Federation; Serbia; Montenegro; Spain; Sweden; Switzerland; Taiwan; Slovakia; Slovenia; Turkey; and Ukraine (Foreign Investors Council Within the Economic Chamber of the Republic of Macedonia, 2014, p. 24).

However, all of the reforms did not increase the interest of foreign investors significantly, until the creation of the Law on Technological Industrial Development Zones in 2008 (*Official Gazette of the Republic of Macedonia No.*

82/08). According to the Law, companies functioning within the TIDZ enjoy various customs and fiscal exemptions and reliefs, as well as state subsidies for covering the costs for building plants, free construction licenses and free connection to water and gas pipe infrastructure. The government also provides subsidies for creation of new working posts within the TIDZ, for covering costs of employees' trainings, as well as exemptions from the employees' personal tax and from the payment of the corporate income tax. The most important incentives that the government provides for foreign investors in TIDZ are presented in Table 3.

Table 3

Government incentives for foreign investors within the TIDZ

Incentives in infrastructure:	<ul style="list-style-type: none"> • Providing construction land for the new plants under a 99 year concession; • Free connection to the water and gas pipe infrastructure, free preparation of the construction land and free construction licenses; • Government participation in covering the building costs of new plants up to 500.000 Euro; • Tax exemptions for a 10-year period; • 0% of VAT; • 0% of Income Tax; • 0% of Personal Tax.
State subventions in cash:	<ul style="list-style-type: none"> • Subsidies on creating of new working posts; • Subsidies on the payment of the corporate income tax; • Subsidies on the employees' personal tax; • Subsidies on costs for employees' trainings.

Source: According to *Official Gazette of the Republic of Macedonia. No. 82/08. 2008*

The reforms in the fiscal area and the approved tax incentives for foreign investors put Macedonia on the first place in the world taking in consideration the applied total tax rate in 2015. Though, according to last year's report of the European Commission, it seems that all the provisions regarding tax and customs exemptions, as well as government's discretion rights in regard with the construction land are not in line either with the EU Code of Conduct for Business Taxation or with the European acquis (European Commission, 2015).

3. IMPACT OF THE CREATION OF TIDZ UPON THE INFLOW OF FDI, THE ECONOMIC STRUCTURE AND THE TRADE BALANCE

Currently there are fifteen TIDZ established within the country. TIDZ were established close to each bigger city in Macedonia and several of them were located close to the state's capital city. Six of the established zones are not operational at the moment, i.e. there is still no any kind of investment or an established company within them.

In the last five years TIDZ attracted about 1.13 billion Euros of FDI and all of them were in the form of green-field investments. This amount also includes the two foreign green-field investments out of the TIDZ that gained the same privileges as the firms established within the zones - *Drexlermaer* and *Kromberg & Schubert* (Kapital, the 30th of April 2015, p. 33).

Table 4

FDI inflow in the Republic of Macedonia for the period 2008-15 (in million Euros)

	2008	2009	2010	2011	2012	2013	2014	2015
FDI inflow	399.89	144.97	160.47	344.41	111.22	252.20	205.14	157.02
% of GDP	6.0%	2.0%	2.2%	4.6%	1.7%	2.8%	2.3%	-

Source: National Bank of the Republic of Macedonia. <http://www.nbrm.gov.mk>. Accessed March 2015

Data in table 4 clearly point out that the annual inflow of FDI has not changed significantly and is still about 2.5-3% of the GDP per year. Nevertheless, FDI invested in TIDZ started to change the structure of the invested FDI in several ways.

All of the invested FDI in TIDZ are green-field investments which changed the general picture of the invested FDI in the country in favor of green-field investments. Up to 2011 green-field investments created slightly more than 38%, while acquisitions and mergers created over 61% of the total amount of FDI in the country (National Bank of the Republic of Macedonia, 2012).

Statistical evidence of FDI confirms that up to 2009 services were 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. Yet, the manufacturing sector, the production of electricity and gas and construction were continuously narrowing the gap and together with agriculture and mining managed to create almost 50% of the total FDI. The most attractive industries within the manufacturing sector were the metal-processing industries and the production of mechanical products (Ministry of Finance of the Republic of Macedonia, August 2009, 29). In the last five years the intensified investment in the TIDZ, as well as in the regular customs area, strengthened the position of the manufacturing sector, and within it the position of the chemical industry (National Bank of the Republic of Macedonia, 2015). The changes in the economic structure of FDI in the last 5 years are presented in Table 5.

In some of the zones FDI helped the establishment of new industries which were not present previously in the economy and which use some more advanced technology in comparison with the already existing one. All of the new plants produce only for exports. They created 31.4% of the total Macedonian export in 2014. However, these new plants became also the biggest importers of

raw materials and components needed for their production, as they are not using the domestic raw material base and have a very limited cooperation with domestic companies. For example, the leading exporting foreign company from the TIDZ - the British *Jonson's Matthy* - happens to be the greatest exporter from Macedonia at the moment. It produces and exports catalysts for the automotive industry. The platinum in powder, which is the basic raw material for this kind of production, is imported in the country and happens to be the second biggest import item in the Macedonian trade balance, after crude oil. As most of the producing plants in the TIDZ depend from imports of raw materials and components from abroad, the net-effect of their export performance is positive, but minor. The net export-import balance of the TIDZ reached only 133 million Euros in 2014 (National Bank of the Republic of Macedonia, 2015).

Table 5

Economic structure of FDI in the period from 2010-2014 (in million Euros)

Industry	2010	2011	2012	2013	2014
Manufacturing	84.85	208.77	49.35	85.17	85.21
Services	12.94	65.72	38.53	96.57	82.63
Mining and extraction	42.09	43.55	-17.22	4.02	77.85
Construction	18.98	21.51	16.59	42.55	47.12
Vehicles and other transport equipment	69.03	88.34	24.04	99.44	29.30
Electricity, gas, steam and cooling systems	1.28	5.09	21.90	14.92	22.24
Agriculture, forestry and fishery	0.98	2.64	2.92	8.28	12.76

Source: Kapital Media Group. The 30th of April, 2015. Kapital – Special edition on foreign investment, Skopje: Kapital Media Group. 25

The origin of invested FDI in the country has not changed significantly as over 90% of the invested FDI are European. At the end of 2014 the leading investing country was Switzerland (see Table 6).

Table 6

Biggest foreign investing countries in the Republic of Macedonia in the period from 2010-2014 in million Euros)

Country	2010	2011	2012	2013	2014
Switzerland	-41.25	-5.76	-15.05	-8.5	126.64
St. Vincent and Grenadine	46.91	44.68	-27.76	-9.14	53.02
United Kingdom	31.62	-59.25	0.46	45.13	44.25
Hungary	-38.97	-0.28	-0.1	-22.04	43.89
Germany	11.93	10.71	12.05	31.97	34.57
Turkey	15.53	77.12	23.53	22.18	32.31
Austria	-10.64	48.12	47.71	56.26	22.64
Ukraine	-13.95	-4.14	0.11	-0.02	21.22
Slovenia	19.7	19.1	8.8	37.98	15.79
Italy	1.64	9.63	2.06	5.73	12.03
Total FDI inflow per year	160.47	344.41	111.22	252.20	262.34

Source: National Bank of the Republic of Macedonia. Annual for 2014. <http://www.nbrm.gov.mk>. Accessed April 2015.

4. EFFECTS OF THE CREATION OF TIDZ UPON THE EMPLOYMENT RATE, SPILL-OVER EFFECTS AND SUSTAINABILITY OF THE STATE BUDGET

Macedonia happens to be one of the countries in Europe with highest unemployment rate, which in the last two years went down from 28% to 26% of the labor force in the country. Therefore, the main goal of each of the governments was and is a decrement of the unemployment rate. Facing a severe lack of domestic accumulation for new investment, they all believed that foreign investors are the best solution for a sustainable and long-term elimination of this problem. However, FDI that were effectuated in the form of acquisitions and mergers did not contribute to the decrement of the unemployment rate in Macedonia. Up to the end of 2010 foreign investors in Macedonia claimed that they found over-employed capacities. In order to achieve effectiveness they dismissed almost 2/3 of the employees several years after the effectuation of takeovers of domestic companies. Nevertheless, they created about 40% of the total number of working posts in the country at the beginning of the current decade, which in absolute figures amounted 18,345 employees (www.statistics.gov.mk).

The creation of the TIDZ was believed to make a substantial contribution to the decrement of the unemployment rate. There is no official data on the actual number of employees within the TIDZ. Some estimation pointed out that at the moment the total number of employees in the zones is about 3,500. If the number of the workers employed in the companies Drexlermaer and Kromberg & Schubert that operate out of the zones, but enjoy the same benefices as the companies within the zones is added to this figure, than the total number of new employments in the last five years is estimated up to 13,000 (Kapital, the 30th of April 2015, p. 26). But this figure is rather disputable whether it is a success or a failure of the new strategy of attracting FDI in the country. Within the TIDZ subsidies are provided for each created working post, regardless if the employee is applying for a job for the first time or he/she has already been employed out of the TIDZ. Subsidies are also provided for training of the working force for the needs of the installed foreign companies and there are exemptions from the regular payments of the personal income tax and the contributions to the state budget according to the Law on TIDZ. Having all those benefices at hand, the employers within the zones are in a position to be more attractive as they can pay slightly higher salaries for certain professions or for skilled working force than employers out of the zones. Therefore, it was evidenced that a significant number of already employed workers out of the TIDZ left their jobs and moved to companies within the TIDZ. Employers in companies out of the TIDZ started to publicly address the government and to complain that they were loosing skilled working force which they could not replace with equally skilled new working force without investing additional capital for its training. At the same time they were not provided any kind of state support, subsidies or facilitation so they felt openly discriminated in comparison to foreign investors within the TIDZ and found this competition un-fair. The analysis of the real effects of TIDZ upon the unemployment rate in the economy can not be performed, as there is no official data on the real number of opened working posts for hiring employees for the first time. In other words, are no official data on the total number of employees that left their jobs in the companies already performing in the economy and went for a new working post within the TIDZ. As the unemployment rate was not significantly decreased in the last several years, there is a great probability that the complaints of domestic employers have to be taken seriously.

The spill-over effects and the cooperation with companies with domestic capital are still modest. Government officials estimate that companies established within the TIDZ started cooperation with about 500 domestic firms, as they used their services in the maintenance of the equipment, in transportation and logistics, catering, security, construction works, and in some cases in providing some raw materials. Foreign companies find domestic suppliers unable to meet EU technical and safety standards. They are also not satisfied with the quality of domestic components. Therefore, they prefer to import almost all the needed components for their production, rather than to supply them from the domestic market (Kapital, the 30th of April 2015, p. 27). The total realized gain of the

engaged domestic companies in cooperation with the companies within the TIDZ was only about 50 million Euros last year.

To be able to evaluate the real effects of the latest strategy on attracting FDI in the country, not only data on the total amount of government subsidies to foreign investors, but also data on the total government spending for the campaign on representing the new FDI model is needed. These data, though, are not publicly available and no institution in the country has an access to them. Substantial expenditures were effectuated through the state budget for the promoting campaign of the TIDZ and the possibilities they offer, for the many road shows that the government organized in a number of overseas countries, as well as for promoters of the country established in many foreign countries.

At the end of 2015 the Association of Young Analysts and Researchers - ZMAI published an estimation according to identified expenditures from the state budget for attracting FDI. Total expenditures were calculated tracking the evidence on government expenditures on economic promotion of the possibilities offered by TIDZ for foreign investors; the expenditures for economic development from the budget of the Directory for TIDZ; and expenditures for economic promotion from the budget of the Agency on Foreign Investment and Promotion of Export of the Republic of Macedonia.

Table 7

Total expenditure for attracting FDI in TIDZ in the period 2009-2014 (in thousands of Euro)

Source	2009	2010	2011	2012	2013	2014	Total:
Government	7,890	8,283	10,787	9,229	10,266	12,697	59,112
Directory of TIDZ	6,785	4,751	5,007	4,890	5,556	5,013	31,969
Agency on FDI	1,587	2,497	2,563	3,286	3,135	5,745	18,777
To Total:	16,229	15,513	18,357	17,387	18,917	23,455	109,858

Source: ZMAI, *The effect of the subsidized foreign direct investment upon the Macedonian economy, Brochure II part*, ZMAI, USAID and the Foundation of the Opened Society, (in Macedonian language), Skopje, September 2015, p. 8

Data in table 7 point out that in the period from 2009 to 2014 the total amount spent from the state budget for promoting the new strategy reached 109,858 thousand Euros, of which 54% were effectuated directly by the government. In the period from 2011 and 2015 the government organized 58 road-shows and visited 31 countries for promotion of the TIDZ and the possibilities that the new strategy offered to foreign investors (ZMAI, 2015, p. 8).

According to some estimation in the last 3 years the government spent about 2 billion Euros on providing transportation infrastructure, free connection to water, gas and electricity infrastructure, construction of the plants within the TIRZ, and paying even for the training of workers that were going to be engaged by foreign investors. Only this figure is almost half of the total stock of FDI attracted in the 25 years of independence of the country (Kapital, the 20th March 2015, p. 33).

The state budget in Macedonia traditionally records deficit which is under control and is targeted and sustained at the level of approximately 4% of GDP. Though, the public debt started to rise intensively and in the last few years it almost doubled and reached about 48% of GDP. It seems that state budget positions are not only threatened by huge government spending, but also by diminishing revenues to the budget which is also partly due to the broad and numerous exemptions offered to the companies operating within the TIDZ. The present structure of the budget clearly points out that there is a big lack of financial means in the State Pension Fund and the situation is going to worsen as the Macedonian population is facing aging challenges and a significant number of employees are reaching the age for retirement in the next decade. The State also created a huge public administration, but the capacity of the economy is rather weak and does not provide enough sources for financing the salaries for the employees within the administration. The only way to fill in the budget with financial means, therefore are new borrowings. In April 2015 the government announced that it was planning to borrow additional 1.25 billion Euros in the following two years, of which 590 million were going to be borrowed from the domestic market, while 660 million were going to be raised from foreign sources. Partly this new borrowing has already taken place, and according to the National Bank the public debt reached 50% of GDP (National Bank of the Republic of Macedonia, 2016).

All the evidence and figures presented in this article confirm that a FDI strategy based on abundant incentives for foreign investors and significant customs and tax exemptions is a rather disputable concept. From the point of view of the inflow of new FDI in the economy, the creation of TIDZ did not provide significant increment of the FDI inflow. In fact, the total inflow of FDI in the economy is still rather low and has not overcome the two peaks realized in 2001 and in 2007 with the privatization of the two big state monopolies – one in telecommunications and the other in electricity distribution sector – yet.

It is also important to point out, that once Macedonia gains a full EU membership, there will be no possibility for functioning of the TIDZ. In other words, the foreign capital will want to leave long before this happens. Knowing the long-term orientation of the Macedonian policy towards the EU, it is totally unacceptable to base all of the hopes for a long-term prosperity and growth upon a model of attracting of FDI which is entirely opposite to the EU rules and legislation and at the same time is openly discriminatory towards domestic investors.

5. CONCLUSION

From all data presented in the paper it is evident that the latest strategy on attracting FDI with the creation of Technological Industrial Development Zones as exemptions from the regular customs and fiscal area of the economy did not have a significant impact upon increasing the inflow of FDI in the country. Yet, it did bring some positive shifts, such as:

Increment of the inflow of FDI in the form of green-field investment in the TIDZ and taking over the positions of acquisitions and mergers that were the dominant form of FDI a decade ago;

Shift in the structure of effectuated FDI from services' towards the manufacturing sector;

Significant changes in the structure of exports of the country which previously was totally dependent on exports of the metal processing industry and production of crude oil and oil derivatives, as well as industries with low added value, such as textiles, non-metal products and agricultural products and food. The leading export products at present are catalysts for automobile engines and there is an increment in exports from the machine-engineering industry, due to the functioning of a bus – producing plant in one of the TIDZ;

A possibility to further increase the number of new created jobs and positive changes in the structure of the working force engaged in the companies within the TIDZ.

Nevertheless, some of the expected effects of the creation of TIDZ did not happen, such as:

The expected spill-over effects and enhanced cooperation between foreign firms within the TIDZ and domestic companies:

A significant decrement of the still very high unemployment rate; and

A positive effect upon the trade balance, as the net-effect of the export and the import of companies within TIDZ is minor and does not influence the trade-balance significantly.

The numerous exemptions from customs and tax duties, as well as from contributions for pension, education and health funds for workers in the TIDZ, are additional burden for the state budget. If the trend of creating working posts within the TIDZ continues, the state budget might face serious problems in providing finances for vital budget positions.

The most unfavorable effect of TIDZ is the open discrimination of domestic in favor of foreign companies. In the period 2012-2015 domestic companies faced serious liquidity problems. Nevertheless, statistical evidence confirms that they managed even under those circumstances to invest about 1 billion Euros per year. New investment of domestic companies was realized

without any kind of support or facilitation from the State and under a very restrictive monetary policy in the country.

The huge expenditures from the State Budget for the promotion of the latest strategy on attracting FDI and the subsidies provided for foreign investors within the TIDZ are rather disputable. One may only speculate what would have happened if all these state money went to other ventures for stimulating economic growth instead of stimulating FDI.

It is clear that once the convenient conditions for foreign investors are terminated, capital would flee away from the country, leaving behind unresolved all of the old problems, such as high unemployment, backward economic structure, old technology, low productivity, difficult access to foreign developed markets, etc. Changes in the conveniences may not be caused from economic or political issues aroused within the Macedonian economy, but in a due time they are going to appear if a progress towards full accession to the European Union becomes possible. The customs union of the EU does not allow such exclusions from its regular customs and fiscal area as it is provided with the creation of TIDZ within the Macedonian economy. It means that there will be no possibilities for functioning of the TIDZ once Macedonia gains a full EU membership. Knowing the long-term orientation of the Macedonian policy towards the EU, it is totally unacceptable to base all of the hopes for long-term prosperity and growth upon a policy of attracting FDI which is entirely opposite to the EU rules and regulations and at the same time openly discriminatory to domestic investors.

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USPJEH ILI NEUSPJEH PROVEDENE STRATEGIJE PRIVLAČENJA STRANOG KAPITALA U OBLIKU INOZEMNIH IZRAVNIH ULAGANJA U REPUBLICI MAKEDONIJI

Sažetak

Postojeća je strategija privlačenja FDI-ja u Makedoniji prvi put primijenjena prije otprilike 8 godina. Temelji se na stvaranju posebnih zona (tehnološke industrijske razvojne zone – TIDZ), koje su izuzete iz standardnog carinskog i fiskalnog područja ekonomije. Tvrtke koje posluju unutar TIDZ-a imaju koristi od izdašnih poticaja i subvencija ako se njihova proizvodnja izvozi na strana tržišta. Vlada je, pored zakonski objavljenih poticaja dostupnih investitorima u okviru TIDZ-a, prešutno zadržala svoje diskrecijsko pravo pružanja dodatnih poticaja pojedinačnim slučajevima u pregovorima sa strateškim inozemnim partnerima. Ipak, s dionicama FDI-ja od samo 4.900 američkih dolara, što je nešto više od 250 američkih dolara po glavi stanovnika, Makedonija je i dalje među najmanje atraktivnim zemljama za inozemna ulaganja u Europi. Nakon 8 godina provedbe ove strategije Vlada otvoreno širi propagandu o svojim pozitivnim rezultatima. Međutim, domaći ekonomisti tvrde da su ti rezultati sporni, posebno zato što su gotovo svi važni podaci potrebni za analizu ukupnih ekonomskih učinaka ili nedostupni ili netransparentni. Stoga se samo mogu procijeniti ukupni troškovi skupe promotivne kampanje za strategiju. Ni implikacije strategije nisu zadovoljavajuće u smislu njezinih učinaka na stopu zaposlenosti, tehnološkog prelijevanja, održivosti državnog proračuna i dugoročnog gospodarskog rasta. Težina posljedica provedene strategije privlačenja FDI-ja zaslužuje ulaganje napora u analizu svim raspoloživim sredstvima, kao i objavu rezultata.

Ključne riječi: *Republika Makedonija, inozemna izravna ulaganja, FDI-strategija, tehnološke industrijske razvojne zone (TIRZ), održivi gospodarski rast*

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