STRUCTURE OF FOREIGN DIRECT INVESTMENTS AND THEIR IMPACT ON ECONOMIC GROWTH IN REPUBLIC OF MACEDONIA

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Abstract

Investment policy as an intermediate element of global economic policy monitors factors that are directly related to the process of the economic development, imperatively including the investment activities. As part of macroeconomic policy, the investment policy plays an extremely important role to improve the economic growth that tends towards higher economic development of the national economy. The established goals of the economic development as a fundamental prerogative determine ways to achieve the goals that are directly facing the economic development of the national economy.

Foreign direct investment (FDI) has the capacity of one of the most important instruments used in the process of economic reforms, market economy, the restructuring process, and before achieving macroeconomic stability and positive growth rate. But the structure of foreign direct investment acts differently towards the economic development and all the positivity that touches convergentely the issues of economic policy. The proper structuring and structural streamlining of foreign direct investment depends on the full utilization of the positivity of this kind of investment and the elimination of all formal and informal factors that may occur directly in the investment process. The structure of foreign direct investment programmes the future economic growth of the national economy.

Keywords: *Foreign direct investments, structure, economic development, growth, macroeconomic, policy.*

Introduction

When it comes to economic development, the term investment is being pointed out. The investments are the basic determinants of economic development observed by micro and macro aspects. Every economic policy has the investments as their imperative factor. A satisfactory level of economic development, economic stability and any other social trends can be achieved with them.

The development of the companies and, most of all, the implementation of the development plans cannot be imagined without the investment ventures. Not only that the investments should be included in the plans, but it is necessary to prepare adequate basis for their implementation too. Every national economy which does not include investments in its strategy is doomed to stagnation and maybe even failure. And why is that so? Because there is no increased reproduction but current playback only in a short period of time which latter begins to decline gradually.

Foreign investment is profit that comes from private companies and financial institutions, international institutions and organizations i.e. any investments that are undertaken in the host country by private companies, institutions and organizations, countries or individuals.

[249]Foreign direct investment, which is the basis of our elaboration, is a category of international investments where the purpose of the entities is to gain permanent economic interest in other international economy. Foreign investor is treated as a direct investor. The company that has been directly invested by the foreign investor is a directly invested company.

[250] Foreign direct investments are presented as an international profit movement through which the goal for long-term interest between the direct investor (resident of one economy) and directly invested enterprise (resident of another economy) is reflected.

It is thought that there is a lasting share if the investor assumes at least 10% of the profit.

FDI beside the initial transaction of self investment, they also incorporate not only other subsequent investments but their affiliations as well. Long-term interest is a significant level of investor's impact in running the enterprise where the profit has been invested in.

FDI research process is a complex task. Few main factors need to be pointed out for its implementation:

- Location and companies' policy,
- Reaching effects from FDI and their impact on the country,
- Transfer of knowledge and technology,
- Convergence and regional development,
- Competitive location in order to attract more FDI etc.

One of the basic postulate that needs to be observed is to cause positive effects from FDI. FDI should, of course, cause positive effects although they might not always result as positive nor tend towards development. Therefore detailed analysis should show the true meaning of FDI in economic system. Therefore the detailed analysis should show the true meaning of FDI in the economic system.

TYPES OF FOREIGN DIRECT INVESTMENTS (FDI)

249Hereinafter FDI

250vidi: Balance of Payment Manual, IMF, 1993; Balance of Payment Compilation Guide, IMF, 1995;

There are several types of FDI that differ depending on the criteria by which they are observed. According to investor's legal office, FDI is divided into inward FDI and outward FDI.

According to the purpose FDI is divided into: horizontal or market seeking FDI, vertical or resource-seeking FDI and export-platform.

Most predictable and used forms of dividing FDI are the following:

- Founding new company (green field),
- Taking over already existing companies in the country (cross-border acquisition),
- Merging companies (international menager),
- Combination between founding new company and acquisition (brown field),
- Joint venture

Most productive type of FDI is green field investment. This type allows construction and operation of a new company. Green field investments affect the gross domestic production of the country where it is located. This type of FDI helps the process of rapid development in the country. Usually every country implements green field investments in its investment policy as a priority from foreign direct investments.

Taking over existing companies or international acquisition includes selling the home company to a foreign one which acquires the majority share package or does a simplification process of purchase. Ownership is transferred to the buyer and the company that has been sold exists no more. The new owner begins with his independent work.

International merger is a process which completely ceases the existence of the domestic company, sells and alters the ownership of the company's wholesome assets and liabilities, the company no longer exists as a legal entity, and interchangeable process takes place where shares are replaced for shares from a foreign company.

Brown field investments are sublimated form of direct investments, acquisition and green field investments. In this process the domestic company is bought and all the control is taken over.

Joint venture is a contract investment between international and domestic investor in order to form a joint venture. This kind of cooperation can also occur as a process in which international company's investment aims to cause cooperation for achieving common interests.

There are portfolio investments too, which are an indirect kind of international investment that do the transfer of domestic profit, achieve query but not ownership as well. Flourishing the profit and beneficence are the main factors for transferring profit without accomplishing control of management.

Effects from Foreign Direct Investments

As a basic positivity their role is to raise the investment and general economic activity in the country or the region. Among the major benefits we can set aside the increased employment. The question is how do FDI impact domestic investments? Probably the empirical research offers the best answer which is: "new evidence from the analysis run by American multinational companies refer to the process of simultaneous increasing of both domestic and foreign investments. This estimation of complementarity involves combining domestic and foreign production in order to generate final products with less cost that the ones from production of only one country, where every stage of manufacturing process becomes a profitable and abundant.

"The effects from FDI are different. Undeveloped countries accept them because the offer rapid economic development although some of the have negative externalities. Developed countries accept them in order to achieve increased economic activity, development of poorly developed areas, development of certain industrial activity, introducing new knowledge and technology, increased productivity, including domestic companies into foreign trends and international process of technology, manufacture and distribution.

Material resources are integrated and processed through integration package of profit, technology, management, marketing, organization skills, workforce education and so on.

Positive externalities can be viewed as an important effect. They are expressed through transfer of management skills, ideas, knowledge in technology, innovation in manufactory process, creativity etc.

Reflection of the effects from FDI on the economy of the countries in transition

Since the early nineties there have been great economic changes in the transition countries, i.e. the countries of Central, Eastern and Southern Europe in terms of economic reforms, transitive changes, European integrative processes as well as processes that are directly involved into FDI's growth. The effects are different depending on the countries, their previous economic development, economic openness, established social and political order, legislations and other elements that have an impact on economic development of those countries.

Common characteristics for all these countries are: lack of domestic investment profit, investment banks and financial markets. Very few countries have previous experience in the process of foreign investments so to be able to draw some historical observations.

FDI's exposure can lead to:

- Foreign investors buying the companies,
- Buying the market in order to achieve full domination on the market as a kind of strategy to conquer the market,

- Foreign investments are focused on most profitable part of the market, which are the services,
- Creating array elements of distortion such as monopolies, oligopolies, cartels etc,
- Companies that appear as holders of FDI are exporters but at the same time are the largest importers,
- Although modernization is expected from FDI yet it falls behind due to the fact that investments are placed in old technologies and the perceptive capabilities of domestic companies are limited.

Even though the FDI in transitive and developing countries shows some negative features yet it is impossible not to quantify and highlight the positive effect that they cause on the economy and economic development of these countries. First of all these investments help to eliminate negativity in terms of companies'faster revitalization, greater accumulation and economic development, joining faster to contemporary economic trends, faster process of qualitative performance on the world market, better utilization of resources or simply faster process of normal profitable operation

Investment portfolio in republic of macedonia in terms of FDI.

The investment portfolio in Republic of Macedonia has drastically changed since 2006. In 2005 FDI was 77 million euro whereas in 2006 they have increased to 345 million euro, or approximately 4,5 times. The reason for such enormous increase is due to government measures for FDI's stimulation and the following can be listed as most important: tax policy, elimination and decreasing fiscal barriers, simplifying the process of administrative functionality, exemption from income tax in the first ten years, twice the lower personal income tax in the first five years, exemption from reinvested profit, VAT and customs, free infrastructure to the area, co-financing of a part of the expenses in accordance with legislation etc.

It is important to improve the business climate so as to implement these benefits. Republic of Macedonia takes measures which are directly aimed towards improving the conditions of development and emphasizing the economic growth. It is done by:

- Improving business climate in order to create conditions for increasing the investment's quantum,
- Setting up an institutional frame for attracting foreign investments with financial and staff grouping of the Agency for foreign investments and assigning two ministers to attract foreign investments,
- Promotional world media campaign,
- Assigning economic promoters in different countries in order to give priority to Republic of Macedonia as a country with great advantage in investment,
- Education of diplomacy and diplomatic-consular offices responsible for economic activities,

- Developing strategy for attracting foreign investments highlighting the comparative advantages, setting up target sectors and developing marketing plans,
- Preparation and realization of sector studies with highlighted advantages in financing the car industry, agribusiness, tourism, information technology and pharmacy.
- Highlighting benefits for investing in four free economic zones : Skopje, Skopje 2, Tetovo and Stip.
- Signing agreements for eliminating double taxation as well as investment protection etc.
- Many worldwide well known companies have expressed their interest for funding in Republic of Macedonia such as: Johnson Controls, Johnson Matthey, Societe Generale, Mobilko Austria, Hypo Alpe Adria Leasing, SAVA re-insurance, Triglav Insurance,
- Lactalis-France, Milestone, IBS Israel, Gazit Globe Osrael, Porsche Bank, Central Cooperative Bank and so on.
- Although government shows effort and willingness to attract foreign investments nevertheless they seem to pass us by. There are several factors that should not be neglected:
- A setback in NATO and EU integration processes,
- Variable climate of interethnic relations,
- Lack of strong foreign banks in banks' portfolio of the country,
- Exit from mafia structures of the transition period,
- Independent judiciary and guarantee for no drastic changes in legislation during operations as well as guarantee that changing the government will not reduce business process unless it shows criminal behavior,

According to a report from The World Bank, Doing Business, Republic of Macedonia was one of the world greatest reform countries for 2007, 2008 and 2009.

Between 2007 and 2010 FDI in Macedonia exceeded 1,2 billion euro and the most of these investments are implemented in financial intermediation, processing sector, construction sector, trade and so on. The biggest investors are: Austria, Slovenia, France, Greece, The USA and Russia.

According to the latest report from The World Bank in terms of business climate Doing Business 2011, Skopje, Bitola and Tetovo are among best business destinations in Southeast Europe.

Quantitative and Graphical Analysis

The presented data refer to the value of foreign direct investments in Republic of Macedonia, the number of employees in enterprises with foreign investments, financial results, classification according to the activity in the period from 2003 till 2011.

The results from this research are used for analytically observing the dynamics of FDI's movement. They are of great importance in terms of the development of economic movement in the country, including the transfer of contemporary technology, perfecting the manufacture process, better utilization of manufacture capacity, as well as contemporary organization of work.

Units of observation in the research for foreign direct investment and other types of international economic cooperation (IEC) are business entities which are registered as business entities with foreign and mixed profit, active business entities that have submitted annual account to the Central Register for the time before the reporting year and the data from Central Depository for securities and purchased shares on the stock by non-residents.

Definitions used in the analysis

Foreign direct investment (FDI) are investment in our business subjects from legal and physical entities from abroad with which we carry out long-term interest and the foreign investor owns at least 10% from the total value of the business subject.

Employees – the term "employee" means every person who has signed a contract with the business subject and local units in private and other kind of ownership (social, state, cooperative and mixed ownership), regardless the type of employment (definite or indefinite employment), as well as whether they have full time or part-time employment.

Financial report – NET profit/loss for the financial year, at an annual expense is a final balance report of regular and additional activities of business subject.

Foreign direct investments in Republic of Macedonia expressed in million euros

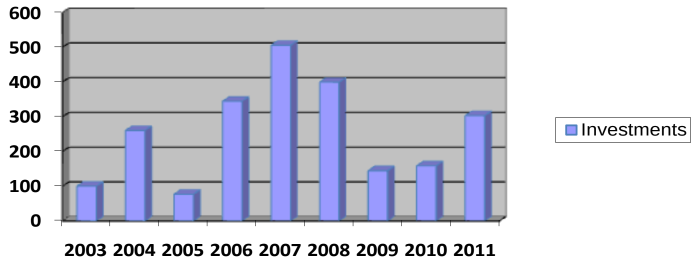
Year	FDI in million euro	% in terms of total investment
2003	100,4	4,37
2004	260,7	11,35
2005	77,2	3,36
2006	344,8	15,012
2007	506,0	22,03
2008	399,9	17,41
2009	145,0	6,31
2010	159,1	6,92
2011	303,5	13,21
Total	2296,6	

In the analyzed period from 2003 to 2011, foreign direct investments (FDI) in Republic of Macedonia are a total of 2296,6 million euro. The majority of the FDI's were in 2007 with 506 million euro or 22,03%, and the less of FDI were in 2005 with 77,2 million euro or 3,36%.

The group of developed countries has the most of FDIs in the period 2003-2011 and about 735 million euro belongs to the countries of the EU.

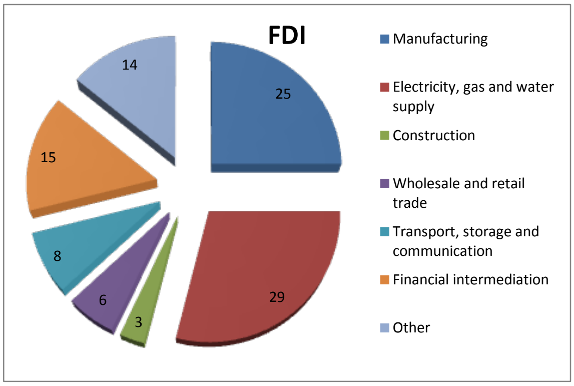
According to the yearly analyses in the countries, in 2003 the majority of FDIs were from Liechtenstein, in 2004 the Netherlands got the primate, in 2005 it went to Saint Vincent and Grenadini, in 2006 and 2007 Austria, Greece in 2008, the Netherlands in 2009 and 2010.

The value of Netherlands' investment is the biggest in 2009 and 2010, 523,56 million euros in 2009 and 554,43 million euro in 2010.



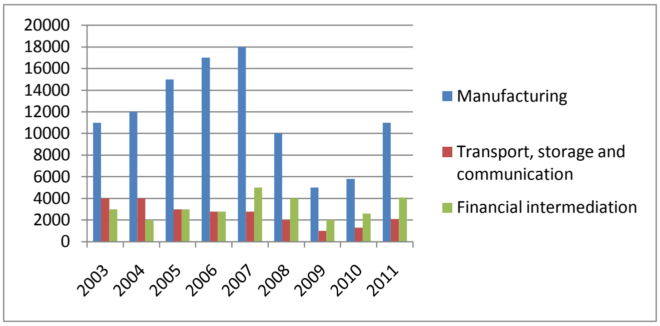
As it is shown in the graphical and tabular chart the largest inflow of foreign direct investments has been noticed in 2006, 2007 and 2008. The trend of investing suffers changes in terms of reducing for the years 2009 and 2010 so that later in 2011 continues in direction of increasing which lasts till the first half of 2012.

Foreign direct investments by the activity of investing, 2003-2011



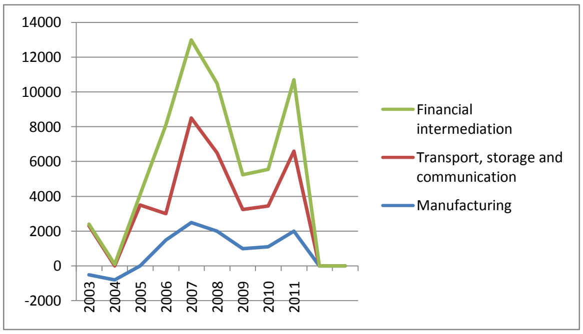
FDIs according to their financial activities between 2003-2011 have the biggest value in power supply with 29% from total FDIs. Next are: manufacturing industry 25%, financial intermediation 15%, traffic, storage and connections 8%, wholesale and retail 6%, construction 3% and other 14%.

The number of employess in the business entities with foreign direct investment for selected activities 2003-2011 in thousands



Based on the largest FDIs, we make a graphic display of the number of employees from the first three most attractive activities which are: manufacturing industry, traffic and financial intermediation.

Financial results of the business entities with foreign direct investments for selected activities, 2003-2011



The analysis of the achieved financial result shows that the best financial result from FDI investments is noticed in financial intermediation and after that traffic, storage and communication, manufacturing industry come.

Conclusion

Investment policy as a general element from global economic policy observes the factors that are directly connected to the process of economic development, imperatively including investment activities. Foreign direct investment plays the role of one of the most significant instruments that are used in the process of economic reforms, market economy, reconstruction process, and most of all achieving macroeconomic stability and positive growth rate. However, FDI's structure works in a distinct way in terms of economic development and all other positivity which have a convergent influence on the elements of economic policy.

We can draw a conclusion from FDI's analyses of Republic of Macedonia that there is a positive climate for attracting FDI. They have had a constant growth in attractive economic branches. If the trend of attracting FDIs continues as well as the interest of investors, we can hope for great economic growth that causes array of positive repercussions in the whole process of living.

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