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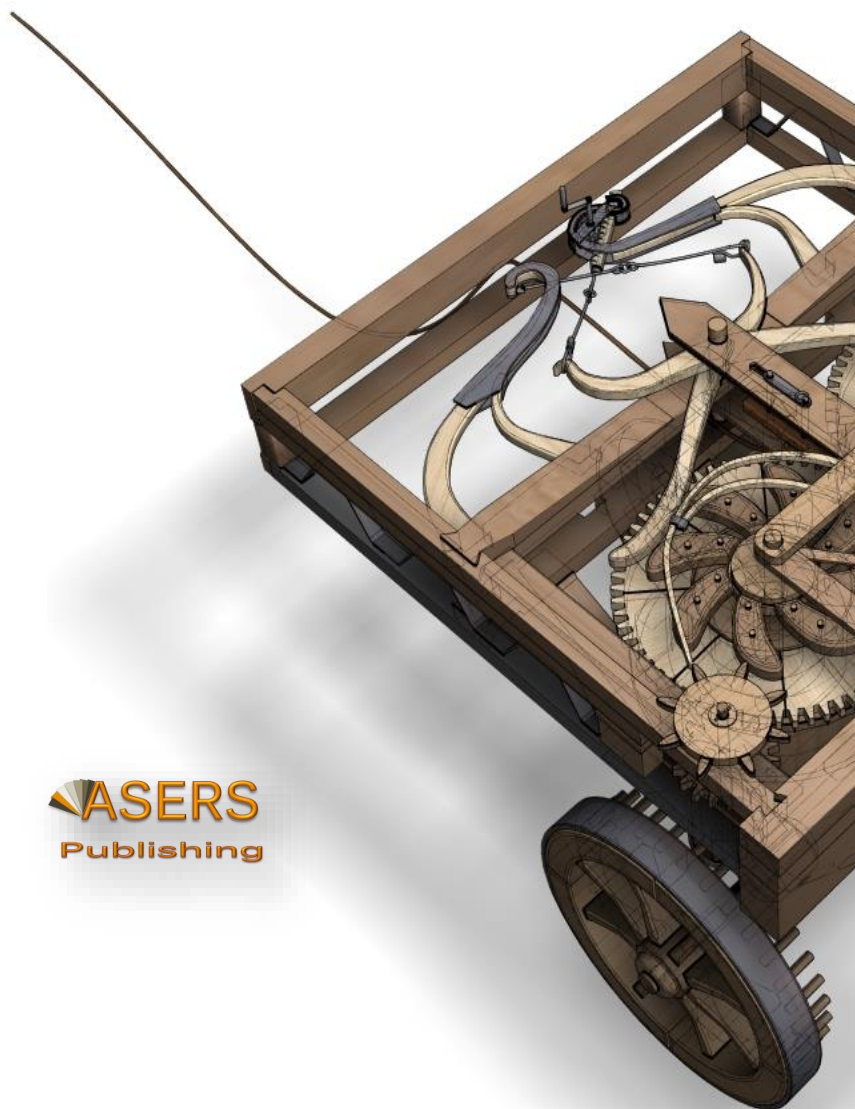
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Motives and Determinants of Foreign Direct Investment in the Republic of Macedonia

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Abstract

In order to design appropriate Foreign Direct Investment (FDI) attraction policies there is a need of exploring which are the key motives and determinants of FDI inflow in the host-country.

The aim is to see whether the Republic of Macedonia follows the global trends due to FDI in transition countries and, in this regard, to research the reasons for the low FDI inflow in the country.

The paper is organized as follows. In introduction we point the importance of FDI inflow in transition countries, and in this context we emphasize the importance of the motives, and therefore the determinants that conditioned the FDI inflow. Section I review the theoretical framework on the FDI determinants, with particular reference to the OLI paradigm. Section II analyses the inflow and structure of FDI in the Republic of Macedonia. In order to explore the FDI motives and determinants in the Republic of Macedonia, which will serve as a reference framework for defining the future direction of policy related to FDI in the Republic of Macedonia, in the third part an empirical research has been conducted in the form of a questionnaire. The conclusion defines the key findings in context of the policy for attracting FDI in the Republic of Macedonia.

Keywords: foreign direct investment, motives, determinants, transition countries

JEL Classification: F02, F21, F23

1. Introduction

In the last several decades globalisation established a new approach towards FDI-related policies and imposed new principles. Globalization contributed towards restructuring the economies in the direction of improving the efficiency of transition countries comparative advantages, including the changes in the FDI motives and determinants.

Simultaneously, more than two decades since the start of the transition, as well as the accession of part of the transition countries into EU, we are given a possibility to compare the FDI attraction policies and see which policies were successful and which weren't. Experience has shown that the countries that have attracted larger FDI inflow, in

general have a higher degree of macroeconomic stability and a faster economic development with the EU membership prospects.

The Republic of Macedonia, in the period of transition, given the weak economy and the low household savings, looked for the way out of the economic crisis in the greater inflow of foreign capital. But the data show that foreign capital inflows in the country are still far from the expectations and needs. In this context, the paper detects the conditions related to FDI in the Republic of Macedonia and represents a reference framework for defining the policy of attracting foreign capital.

2. Eclectic Theory

The need to synthesize various aspects of motives for export of capital in the form of FDI and simultaneously enable their empirical study led to the occurrence of eclectic theory, or OLI (Ownership – Location – Internationalization) paradigm.

The eclectic theory, known as OLI-paradigm of John H. Dunning 1981, which is then reformulated (1988, 1995, 1997, 2000) synthesizes all of the aforementioned theories and represents a modern concept that explains the motives for export of capital in the form of FDI (Dunning, 1993).

The OLI paradigm explains the change in the international position of the country depending on the level of economic development and is particularly applied in the study of motives for export of capital in the form of FDI in less developed countries and, in this context, in transition countries.

The OLI paradigm has proposed that the returns to FDI can be explained by the competitive-ownership advantages of firms (O), indicating 'who is going to produce abroad', by location factors (L) 'influencing where to produce' and by the internalisation factor (I) that 'addresses the question of why firms engage in FDI rather than license foreign firms' (Dunning, 2001).

The basic hypothesis of OLI-Paradigm is that the company will engage FDI if and when they realize all three groups of advantages. The Paradigm points that the combination of Ownership, Location and Internalization advantages and their exact configuration defines which companies become TNCs, where to locate their production and how they are involved in international production. In explaining the paradigm Dunning considers that '...in the formulation of operational hypotheses about the relationship between individual variables and OLI-level and pattern of international production, it is important to determine the context in which the relation is researched' (Dunning, 2001).

The most systematised approach for the FDI inflow determinants in the capital host country was made by UNCTAD, in 1998 (UNCTAD, 1998).

According to this classification, the FDI inflow determinants in the capital host country have been distributed into three groups: factors related to FDI national policies, economic factors and country's business climate.

The relative importance of some determinants is likely to vary between different types of FDI, i.e. resource-seeking, market-seeking, efficiency-seeking and strategic assets-seeking FDI (Dunning, 2000).

Market-seeking investors will be attracted to a country with a large or fast market growing potential. Market size in terms of country population and income matters a lot. Actually, it is not interesting to invest in a country with a very high GDP per capita but with a limited amount of consumers or in case when a country has a lot of inhabitants, but a low GDP per capita. Foreign investments in transition countries are influenced by market seeking motive, due to differences in the size of their domestic markets. SEE countries compared to CIS countries are quite small and that is why almost equal important is the market with huge potential. If it is very easy to access neighbouring countries markets due to trade agreements, then this motive is very significant in transition economies.

The second type of FDI is asset-seeking or resource-seeking FDI. It takes place when the company's purpose is to gain access or acquire the resources in the host country which are not available in the home country, such as raw materials, natural resources or low-cost labor. It is especially related to the manufacturing sector. Transition countries are not very rich in natural endowments (except for the Commonwealth of Independent States, CIS), so the significance of this motive is low and does not influence in great scope foreign investor's decision. In terms of O advantages, SEE has mostly been attracting companies in the labor intensive industries. Most recently, unskilled workforce or low labor cost becomes more a facilitator than a motive for investing abroad, since foreign investors are becoming more interested in well-qualified and educated workforce.

The third type of FDI is efficiency-seeking FDI. It takes place when the company can gain when there is a common governance of geographically dispersed activities and presence of economies of scope and scale.

The strategic assets-seeking motive is important for a small number of industries, such as electronics, chemistry and infrastructure. In order for this motive to be utilized, it is more than necessary for countries to have a capacity to absorb the strategic assets. In this framework, transition countries do not have sufficient capacity to absorb them and therefore this motive is not applicable for decision making investments.

According to J. H. Dunning, the so-called institutional infrastructure represents locally related instruments intended for facilitating economic activities (including FDI) by decreasing transaction costs of such activities (Dunning, 2004). Institutional infrastructure is present in all three groups of determinants of FDI inflow and constitutes an 'umbrella' affecting the efficiency of each of the groups of factors (Dunning, 2000). This reveals that the investor's motives are changing and therefore countries must seek new ways to attract FDI.

3. The Foreign Capital Inflow in the Republic of Macedonia

In the period after independence, the Republic of Macedonia faced a number of economic and political problems. The macroeconomic instability, hyperinflation, and the high amount of inherited external debt were one of the many difficult problems that the Macedonian economy has faced in the early 1990s. Also, the political and economic blockades, sanctions of the Security Council of the UN against Yugoslavia, the Greece embargo against Macedonia, the war in former Yugoslavia, the Kosovo crisis and the political and security crisis in the Republic of Macedonia had a negative impact on the Macedonian economy. As a result of these events, the FDI inflow until the mid-1990s in the country was very low.

After 1995, as a result of the implementation of the stabilization program and the implementation of the structural reforms in the Macedonian economy, the interest of the foreign investors in Macedonia has been growing. However, FDI in the country is still very low. In the period from 1993 to 1997, the FDI in the country amounted to approximately 74, 7 million US dollars (Chart 1). During this period, most of the FDI was in the food and food industry.

The low FDI inflow in the Republic of Macedonia in the 1990s, except for the political and security situation in the territory of former Yugoslavia, is due to the privatization which for the most part was realized in this period. By 1998, about 90% of the industrial enterprises have been already privatized, but the Republic of Macedonia, unlike other countries in transition, failed to take advantage of the privatization in order to attract foreign capital. One of the reasons for the low FDI inflow during privatization, according to many economists, is the result of the method of privatization. The so-called insider privatization favored domestic over foreign investors (Slaveski, 1997).

The first significant FDI have been realized in the late 90s. In 2000, the FDI amounted 215,1 million US dollars, of which most significant were the investments in the banking sector and insurance.

In 2007, the Republic of Macedonia by following the example of some former transition countries of Central Europe, has introduced a model of investing in technological and industrial development zones, which significantly contributed to the growth of FDI inflows in the country. As a result of that, in 2007 the FDI inflow in the Republic of Macedonia amounted a record high 699, 1 million US dollars (Figure 1).

In 2008 and 2009, the FDI in the country has declined primarily due to the developments in the world economy.

In the beginning of the crisis the Macedonian economy, as in most countries in transition, did not feel the effects of the global economic crisis. But, in the first half of 2009 the negative effects of the crisis were felt in the country. The postponement of investments in foreign companies, being a result of lack of funding, has resulted in a decline in FDI in the country.

In 2011, the FDI in the country are growing again and compared to 2010, they have increased for more than double, from 211 to 463, 3 million US dollars.

The share of FDI in gross fixed capital investment in the country in average amounts about 30% (UNCTAD, 2011). The high share of FDI in gross fixed capital investments confirms the fact that FDI in the country are significant source of capital necessary for the implementation of structural reforms, but also points to the high dependency of the country on foreign accumulation, which may adversely reflect the economic development in the long term. In the some time, the data on the share of FDI in GDP of the Republic of Macedonia suggests that FDI still have no significant contribution in boosting the economic development of the country.

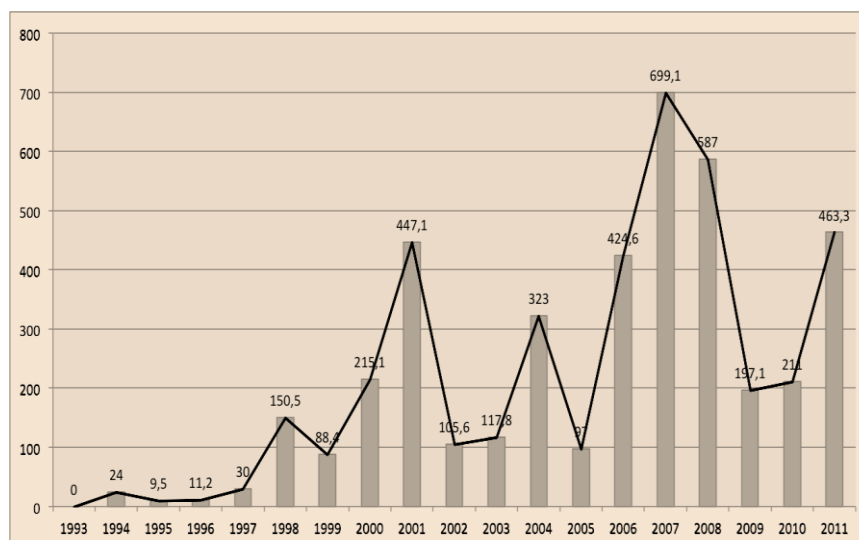


Figure1. FDI inflow in the Republic of Macedonia, 1993-2011(in bill.\$)

In terms of the geographical structure of FDI in the Republic of Macedonia, the data show that most FDI in the Republic of Macedonia come from developed countries, and mainly from Greece, Hungary and Switzerland. These countries on average held more than third of the total FDI in the Republic of Macedonia, indicating a high concentration of foreign capital of only few countries.

In terms of the sectoral structure of FDI in the Republic of Macedonia, by 2000, more than 50% of the foreign capital in the country is in the manufacturing sector. But, in the last decade the FDI in the Republic of Macedonia are mostly in the service sector, which is correlated with the global trend of dominant share of FDI in this sector in recent decades.

In the late 1990s, the countries in transition, following the global changes in world economies have started the process of liberalization of the service sector. In this context, the Republic of Macedonia began the process of privatization in telecommunications and financial sectors. As a result of these developments, the analysis of FDI inflow in the Republic of Macedonia shows that in 2000 and 2001, the first significant foreign investments were realized in these sectors.

In the early transition, the FDI in the Republic of Macedonia as in most transition countries, were dominant in the form of mergers and acquisitions, primarily as a result of the privatization process. With the completion of the privatization and sale of strategic facilities, telecommunications, electrical utility and Oil Company, since the beginning of 2000, the Greenfield investments in the Republic of Macedonia intensively grow, and they are a dominant form of investment capital.

In context of the FDI inflows, the Republic of Macedonia, compared to the countries in the region, is the last country in the success of attracting FDI. Foreign investors who have invested in the Republic of Macedonia were motivated for the most part from the extremely high profit of a small number of companies which guaranteed monopolistic market positions. With the entry of the CEE countries to the EU, and later Bulgaria and Romania, expected foreign capital from these countries to be diverted in SEE countries. But, the Republic of Macedonia has failed to seize this opportunity.

On the other hand, if we compare the success in attracting FDI and the potential for attracting FDI to the Republic of Macedonia, it can be concluded that the FDI inflow in the country is within its potential.

Namely, according to UNCTAD, the Republic of Macedonia is among the countries that have managed to attract FDI in the framework of its economic potential by four determinants for FDI, suggesting that FDI inflow in the country, although being low, is within its possibilities and potential based on the attractiveness of the market, the availability of cheap and skilled labor force, the wealth of natural resources and the level of growth of infrastructure.

Given this, a question arises as to how the Republic of Macedonia can improve its potential for FDI.

4. Motives and Determinants of Foreign Direct Investment in the Republic of Macedonia

4.1. Methodology and data

In order to explore in more detail the reasons for venture capital in the form of FDI and the determinants of FDI inflows in the country, and to recognize their effects in the country, which shall serve as a reference framework in defining future directions of policy related to FDI in the Republic of Macedonia, an empirical research has been conducted in the form of questionnaire.

The reference framework to which the analysis is based represents OLI-paradigm of J.H. Dunning.

The questionnaire consists of three parts.

The first part of the questionnaire, given the basic postulate of OLI paradigm that the formulation of operational hypotheses about the relationship between the individual OLI variables and the level of international production should clearly define the region (geographical structure), industry (sectoral structure) and companies, present the main feature of the foreign companies in the Republic of Macedonia being subject to study.

The second part of the questionnaire refers to making a decision to invest in foreign companies in the Republic of Macedonia. In this section we explore the motives for investing and determinants of FDI in the Republic of Macedonia, which will serve as a reference framework in defining future direction of policy towards FDI in the Republic of Macedonia.

The third part of the questionnaire refers to the investment management. This part of the statistical analysis of the processed data supplements the analysis in the paper on FDI in the Republic of Macedonia.

The questionnaire is filed to 26 foreign companies in the country, of which 17 companies, about 65%, has answered the questions.

The results obtained by statistical processing and analysis of the responses given by the representatives of the foreign companies in the Republic of Macedonia.

The data obtained from the companies with the largest foreign capital in the Republic of Macedonia are a relevant sample in order to draw conclusions about the motives of venture capital and determinants of FDI inflow towards the development of future policies related to FDI in the country.

4.2. Results

In the race for FDI, transition countries seeking to attract foreign capital by creating national policies in line with the suggestions of the economic literature, while taking into account the experiences of countries that were an example of success in attracting FDI.

On the one hand the Republic of Macedonia has set the legal framework for FDI; on the other hand it offers a range of incentives to potential foreign investors. But the data regarding the weak inflow of foreign capital in the country show that apparently it is not enough.

The Republic of Macedonia can increase its potential for FDI by improving the locational and ownership advantages. In this context, the economic factors of the country are of particular importance, whose influence depends on the motives for investment.

Regarding the motives for venture capital, the results of the survey show that the greatest influence on the decision of foreign companies to invest in the Republic of Macedonia had the motive to conquer new market. In the ranking of distribution of the motive to conquer new market, 52.94% of foreign companies have rated this motive with the greatest impact in making their decision to invest in the Republic of Macedonia (Table 1).

Table 1. Motives influencing the decision of foreign companies to invest

Ranked impact	conquering new market	greater efficiency of capital engaged	resource seeking	looking for strategic products
1	9 52,94%	4 23,53%	1 5,88%	5 29,41%
2	3 17,65%	3 17,65%	7 41,18%	2 11,76%
3	1 5,88%	10 58,82%	5 29,41%	3 17,65%
4	4 23,53%	/	4 23,53%	7 41,18%
Total	17	17	17	17

The Republic of Macedonia is a country with a small market and low level of development, growth based on labor-intensive factors, poor technological capabilities and limited exported. Also, the Macedonian economy has a relatively liberal trade regime and regional cooperation.

In terms of the economic factors related to the market, in the era of globalization, the access to regional and global market has a major impact on the FDI inflow in the host country's capital. In this context, the openness of the country and the regional cooperation are of particular importance and indicate the level of integration of the economy in the regional and global economic trends.

This tendency is confirmed by the results of the survey. Namely, in the ranking of the economic factors associated with the market, the results show that the access to the regional and global market had the greatest influence on the decision of the foreign companies, being subject of research, to invest in the Republic of Macedonia (Table 2).

Table 2. Impact of economic factors associated with the market

Ranked impact	market size	market development	market development	market development	specific consumer preferences in the country
1	5 29,41%	6 35,29%	6 35,29%	9 52,94%	3 17,65%
2	5 29,41%	8 47,06%	10 58,82%	5 29,41%	5 29,41%
3	6 35,29%	2 11,76%	1 5,88%	3 17,65%	9 52,94%
No data	1 5,88%	1 5,88%	/	/	/
Total	17	17	17	17	17

Macedonia has a relatively open economy. The share of trade in GDP is around 80% (Ministry of Finance of the Republic of Macedonia). The trade policy of the Republic of Macedonia is in accordance with the country's membership in the TWO, as well as with the Stabilisation and Association Agreement with the EU. Also, the membership in CEFTA has resulted in completing the network of bilateral free trade agreements with all Member States.

In context of the economic factors associated with the market, an important limiting factor for FDI in the Republic of Macedonia is the country's poor market growth. In this regard, the survey results obtained by ranking the determinants which negatively affect the operation of foreign companies in the Republic of Macedonia show that the poor market growth has a significant impact on foreign investors in the country (Table 3).

Table 3. Determinants which negatively affect the operation of foreign companies

Ranked impact	political instability	macroeconomic instability	unclear regulations and standards related to foreign investment	poor market growth	inadequate policy towards private enterprises and competition
1	7 41,18%	9 52,94%	5 29,41%	11 64,71%	5 29,41%
2	8 47,06%	6 35,29%	7 41,18%	4 23,53%	8 47,06%
3	1 5,88%	2 11,76%	4 23,53%	2 11,76%	3 17,65%
No data	1 5,88%	/	1 5,88%	/	1 5,88%
Total	17	17	17	17	17

The resource seeking motive also has a significant impact on the decision of the foreign companies in the Republic of Macedonia. That is, according to the survey in the paper, the resource seeking motive had a significant impact on the decision to invest in the country in 41.18% of the foreign companies. (Chart 1)

The Republic of Macedonia is attractive for resource-seeking FDI, because of its relatively cheap labor, but it does have limited natural resources.

The average gross salary in the Republic of Macedonia amounted 504 euros in 2014. The rate of unemployment in the country is 28% (Vienna Institute for International Economic Studies).

However, if we compare the Republic of Macedonia with other SEE countries, it turns out that the labor in the country is not the most competitive.

What is worrying is the fact that the unskilled labor largely takes place in the structure of the active population by education (Ministry of Finance of the Republic of Macedonia). Namely, 43% of the active population is uneducated or have not completed secondary education. Also, the labor productivity is at very low level.

The economic literature confirms that the era of globalization and availability of skilled labor is of greater importance. In recent decades, the cheap labor force falls in the category of incentives for the foreign investors than motives for investment.

This tendency is confirmed by the results of the survey in the paper.

In the ranking of economic factors associated with the resources and capacities of the host country's capital, the available skilled labor had the strongest influence on the decision to invest in the Republic of Macedonia, i.e. 64.71% of the foreign companies which are subject of the study. Also, the cheap labor had a strong influence on the decision to invest in the Republic of Macedonia in 58.82% of the foreign investors.

Also, the available innovative and technical capacities are of great impact. In the distribution of the ranking factors for 41.18% and 35.29% of foreign companies, the available innovative and educational capacities and the available technical capacities had significant impact on the decision to invest in the country (Table 4).

Table 4. Impact of economic factors associated with the host country's resources

Ranked impact	low rental costs	cheap labor	available skilled labor	available innovative and educational capacities	available technical capacities	good infrastructure
1	4 23,53%	10 58,82%	11 64,71%	3 17,65%	6 35,29%	4 23,53%
2	2 11,76%	5 29,41%	4 23,53%	6 35,29%	7 41,18%	6 35,29%
3	10 58,82%	2 11,76%	1 5,88%	7 41,18%	3 17,65%	7 41,18%
No data	1 5,88%	/	1 5,88%	1 5,88%	1 5,88%	/
Total	17	17	17	17	17	17

In the era of globalization, the motive for greater efficiency of the engaged capital becomes more important. But, here we need to bear in mind the fact that this type of FDI is typical for the countries that have reached a certain level of economic development, suggesting that this motive has no significance in both the transition countries and the Republic of Macedonia.

These facts are confirmed by the results of the survey in the paper, according to which the motive for greater efficiency of the engaged capital for most companies, i.e. 58.82%, had little impact on their decision to invest in the Republic of Macedonia (Table 1).

The Macedonian example for efficiency-seeking FDI is the investments in TIDZ. In this context, the results of the survey in the paper on the impact of the motives for investing in the FDI structure shows that the motive for greater efficiency of the engaged capital had a major impact on the decision to invest in the country in 50% of the foreign companies from non-European countries, which actually refers to foreign companies that have invested in TIDZ.

In recent decades, the globalization has contributed to the decrease of the importance of traditional determinants of FDI inflow, while the importance of the so-called institutional infrastructure of the host country's capital is increasing compared to other factors. Hence, the creation of modern institution infrastructure is one of the necessary preconditions for joining the country's global capital flows.

The Republic of Macedonia and other transition countries, have faced inefficient institutions stemming from the transition process. The lack of institutional quality infrastructure is an important limiting factor for FDI in the country. At the same time, the Republic of Macedonia has proved that it is quite difficult to establish institutional stability. The poor mechanisms for implementation of the regulatory framework for the business sector and non-transparent operation, have significantly affected the inflow of foreign capital in the country. The bureaucracy and inefficient administration as a result of the transition are still present. Foreign investors face lengthy bankruptcy proceedings and unclear privatization, which means having the opportunity to corrupt activities in certain countries. At the same time, the judiciary still suffers from a lack of independence, as well as low operational efficiency.

The results of the survey in the paper confirm the importance of the institutional infrastructure as determinants of FDI in the Republic of Macedonia. According to the results, the strongest influence on the decision of foreign companies to invest in the Republic of Macedonia has the institutions' efficiency, in 35.29% of foreign companies and an average impact for the same percentage of companies (Table 5).

Table 5. Impact of determinants associated with the business climate

Ranked impact	incentives for foreign investors	rule of law	effectiveness of institutions	services for realization of investment
1	7 41,18%	4 23,53%	6 35,29%	5 29,41%
2	8 47,06%	9 52,94%	6 35,29%	8 47,06%
3	2 11,76%	4 23,53%	4 23,53%	3 17,65%
No data	/	/	1 5,88%	1 5,88%
Total	17	17	17	17

At the same time, the results show that the greatest negative impact on the operation of the foreign companies has the failure to meet the legal regulations (Table 6).

Table 6. Determinants which negatively affect the operation of the company

Ranked impact	lack of innovative and educational capacities	lack of technical capacities	poor infrastructure	lack of legislation	existence of administrative FDI entry barriers
1	1 5,88%	/	5 29,41%	10 58,82%	4 23,53%
2	6 35,29%	10 58,82%	8 47,06%	2 11,76%	5 29,41%
3	9 52,94%	6 35,29%	3 17,65%	3 17,65%	7 41,18%
No data	1 5,88%	1 5,88%	1 5,88%	2 11,76%	1 5,88%
Total	17	17	17	17	17

In terms of the national policies associated with FDI, one of the main priorities are the political and macroeconomic stability of the host country's capital.

In the period after its independence, the Republic of Macedonia has faced a number of economic and political problems. The macroeconomic instability, hyperinflation and the high amount of inherited debt were one of the more difficult problems that the Macedonian economy has faced in the early 1990s. At the same time, the political and economic blockades, the sanctions of the Security Council of the UN against Yugoslavia, the Greek embargo against Macedonia, the war in former Yugoslavia, Kosovo crisis and the political and security crisis in the Republic of Macedonia also had a negative impact on the Macedonian economy.

In the Republic of Macedonia, the political stability was a key factor that negatively affected the inflow of FDI in the 1990s, but in the present days, as a candidate country for EU membership, it is unacceptable for the political

stability to be deterrent to the FDI inflows into the country. However, it should be borne in mind that the Republic of Macedonia is in a relatively unstable region.

The Republic of Macedonia is a small country with a relatively low level of economic development. Also, the country has a relatively low inflation and stable exchange rate. The average inflation rate was around 3%.

The importance of the determinants related to national policies on FDI is also confirmed by survey results in the paper. Among them, the greatest influence on the decision of foreign investors to invest in the country has the political and macroeconomic stability. 58,52% of the foreign companies in the country that were subject of the survey have accessed that the macroeconomic stability had the strongest influence on their decision to invest in the country. The political stability had significant impact for 52.94% of the companies (Table 7).

Table 7. Impact of determinants related to national policy on FDI to the decision for investment in the Republic of Macedonia

Ranked impact	political stability	macroeconomic stability	privatization process	guaranteed private property and existence of a free competition
1	4 23,53%	10 58,82%	4 23,53%	4 23,53%
2	9 52,94%	6 35,29%	6 35,29%	11 64,71%
3	3 17,65%	/	5 29,41%	1 5,88%
No data	1 5,88%	1 5,88%	2 11,76%	1 5,88%
Total	17	17	17	17

In terms to the legislation related to FDI, the Republic of Macedonia does not differ that much from other SEE countries.

The Republic of Macedonia, as well as other transition countries, applies the principle of national treatment of FDI, i.e domestic and foreign companies are equally treated in the country. Free entry and establishment of foreign affiliates, as well as free transfer and repatriation capital and profits are regarded as norms related to FDI in the transition countries and in the Republic of Macedonia. Also, the legislation of the Republic of Macedonia gives directions under which foreign investors can invest in all sectors and areas of the country, with the exception of a few. The foreign investors have the right to own private property and the right to land ownership by way of registration of the company in the country.

In order to attract foreign capital, in 2007, the Republic of Macedonia has introduced a TIDZ model by adopting the Law on Technological-Industrial Development Zones. In recent years, most part of the Greenfield investments are realized exactly in the TIDZ.

Regarding the effects of incentives for FDI, the economic literature suggests that fiscal incentives have little impact on FDI inflows. This fact is confirmed by the survey results in the paper, according to which the 'incentives for FDI' for the most of the foreign companies, i.e 47.06% had average impact on their decision to invest in the Republic of Macedonia (Table 5).

But, the effects of incentives are only visible if the country has reached a certain level of economic development. Incentives can not compensate for the shortages due to the poor progress in transition and structural reforms, nor can be a substitute for the unfavorable investment climate in the country. At the same time it should be taken into account the fact that the former transition countries that are now EU members had to review the most part of the incentives for FDI during the negotiations with the Union.

The Republic of Macedonia and other transition countries faces with inefficient institutions stemming from the transition process. The lack of institutional quality infrastructure represents an important limiting factor for FDI in the country. Also, in the Republic of Macedonia it has been proven that it is quite difficult to establish institutional stability.

The weak mechanisms for the implementation of the regulatory framework for the business sector, as well as for the non-transparent operations significantly affected the inflow of foreign capital into the country. Bureaucracy and inefficient administration as a result of the transition are still present. Foreign investors face lengthy bankruptcy procedures and unclear privatization, which means an opportunity for corrupt activities in certain countries. At the same time, the judiciary still suffers from a lack of independence, as well as low operational efficiency.

Conclusion

The Republic of Macedonia belongs to the group of countries that, in economic terms, find it hard to progress toward transition, while not sufficiently integrated into the global economic trends. In this context, it requires for economic changes that will include intensification of the development and inclusion of the country in the global economic processes through intensive structural changes and a greater inflow of foreign capital. Hence, it is necessary to continuously adjust to the business environment in line with the world trends, but at the same time, the Republic of Macedonia should identify its own conditions and opportunities for attracting FDI in light of its rapid economic development.

The economic literature suggests that FDI can be a catalyst to the development of the country, but the extent and nature of the effects depends primarily on the absorbing capacities of the capital's host country, which transforms FDI in economic development.

The Republic of Macedonia is a country with small market, low growth, low savings rate and relatively high level of indebtedness. It is obvious that the Republic of Macedonia needs foreign capital in light of its rapid economic development. But the data show that the Republic of Macedonia in the transition period has attracted a very small inflow of FDI compared to the countries of the region and the effects of foreign direct investments in the country were not as expected. Given this, a question arises as to the strategy that the Republic of Macedonia should develop in terms of foreign direct investments.

The analysis of FDI determinants in the Republic of Macedonia indicate several facts which transition countries have to take into consideration when creating their FDI-related national policies.

In future, the Republic of Macedonia has to attract FDI that will affect the economic development of the country.

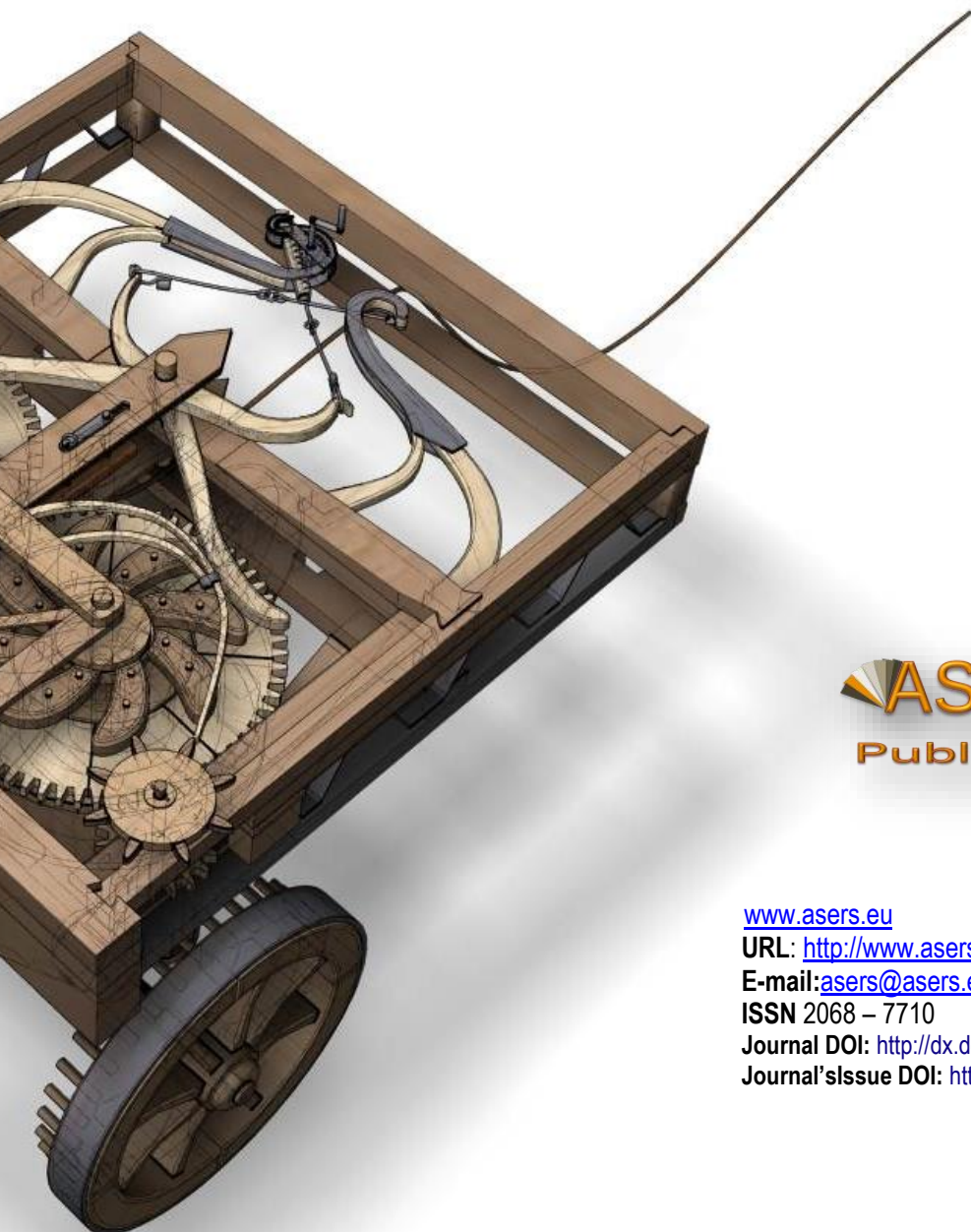
The effects of FDI in context of the economic development of the country are insignificant, which is largely due to the weak progress in transition.

The FDI inflow is conditioned on the implementation of structural reforms in the period of transition and, in this context, on the level of the country's economic growth. The development of the market institutions is one of the basic preconditions for attracting FDI. Also, the infrastructure development decreases the transport costs, which is especially significant for the potential foreign investors. In the last several decades, global changes have imposed the importance of the approach to the regional and the global market as a determining factor of FDI inflow, thereby making the openness of the country an increasingly necessary precondition for attracting foreign capital.

At the same time, the modern institutional infrastructure is one of the necessary preconditions for joining the country's global capital flows. In this context, it is necessary to eliminate the administrative barriers, which still represent a limiting factor for foreign investors through institutional reforms. Also, improvement of the judiciary, as a guarantee of impartiality and equal working conditions, should be a priority.

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