The Influences of Foreign Direct Investments, the Economic Advantages Offering in Macedonian Economy

An overview of foreign organizations activities

Prof. Assoc. Dr Alba Dumi

Dean of Graduated School "Ismail Qemali" Vlore University"
Email:besi.alba@yahoo.com

Florina Memeti

SEEU University, Law Faculty, Graduated in "Master in law"
E mail:florina_memeti@hotmail.com

Jeton Qazimi

SEEU University, Law Faculty, Graduated in "Master in law",
Email: jeton_toni02@hotmail.com

Doi: 10.5901/mjss.2012.v3n3p251

Abstract: *In this paper we want to illustrate the facts that both means of supplying markets exporting and production in those markets. Moreover, there are two international business activities that we are studying in our paper research. Among, the companies Forbes (2000) listed as the 100 largest U.S multinationals companies. According the World Investment Report small and middle enterprises account for 20.8% of the total 3.470 U.S. In this paper we analyze two topics directly related to exporting and production in foreign countries to compare with foreign investments in Republic of Macedonia. The aim of this study is to analyze: (1) international trade which includes exports and imports in Republic of Macedonia, (2) foreign direct investments which international polices in Republic of Macedonia must make to establish and expand the activity components and products in Republic of Macedonia. Today's multinationals create widespread network of research, component production assembly and distribution." We want together date from the development of foreign investments of Republic of Macedonia. There are a number of advantages of in focusing attention on a national that is already sizable purchaser of goods coming from would – be exporter country.*

Key words: *Foreign investments, international trade, capital instruments, productivity in Macedonia*

1. Introduction

1.1 International trade and volume of the trade, influences over productivity and business climate.

One the major trading partners of the firms-home country and those of the nations where it has affiliates that export can provide valuable insights to management.According to the definition, of Martin Wolfe, Global Business analyst (Financial Times, October 1, 1997, pp.12) "Creating overseas production cities merely in order to meet local consumption looks an increasingly fragile basis for foreign investment. A much better one is the ability to make the best use of companies-competitive advantage by locating production wherever it is most efficient. Why focus on major trading partners? 1).Business climate in importing nations is relatively favorable 2).Export and Import regulations are not insurmountable 3).There should be no strong cultural objections to buying that nations- goods 4).Satisfactory transportation facilities have already been established.

2. Literature Review and Hypotheses

2.1 Foreign direct investments, rapid increase in nowadays

This study empirically examines the impact of debt management policies on borrowing costs incurred by state governments when issuing debt in the municipal bond market. Based on positive political theory and the benefit principle of taxation, it is proposed that states that adhere to best practice debt management policies transmit signals to the credit ratings, investment community and taxpayers that the government should meet its obligations in a timely manner, resulting in lower debt costs. FDI has arisen rapidly from 185 billion $ in 1985 to 360 billion $ in 1996 (Source: World Investment Report, New York, 1997, pp.303). The problem is that we do not have a country with the rule of law, Macedonia has not a professional Administration that will offer to investors security, business climate or politic. The fact that Macedonia is really too bad with FDI comparing with regional countries is the statistical report from International Institute for Economic Researches of Vienna: In 2010 in Macedonia entered 221 million Euros, in Serbia 1 milliard, in Albania 800 million and in Montenegro 564 million Euros. So this Government must do the actions that other regional countries did to attract more investors, for example to fix the road infrastructure, to use fiscal reliefs. Macedonia need to search investors from regional countries and from Europe, so the countries that know about Macedonia, not from Japan, India, est. that has more less or no knowledge about this country.

This is an average annual increase of nearly 12 %. Observe how concentrated FDI is in the United States. Nearly three-quarters of the total stock was owned by firms of just five nations: (1) United Kingdom (23 percent), (2) Japan (19 percent), (3) the Netherlands (12 percent), (4) Germany (9.9 percent), and (5) Canada (8.5 percent).On the record investment outlays in the U.S by foreign firms, much more has been spent to acquire going companies than to establish new ones. A number of reasons are responsible : (1) Corporate restructuring in this country caused managements to put on the market units that either did not meet management's profit standards or were considered to be unrelated to the company's main businesses, (2) foreign companies desired to gain rapid access in this country to advanced technology, especially in computers and communications, and (3) managements of foreign firms felt that entrance in to the large market and money promote foreign direct investments.(Source: International nature of business, July, 1999, pp.34).

Tab 1.Stocks of Outward Foreign Direct Investment, Selected Countries, 1985, 1990, 1995, 1999 and 2000 ($ Billions)

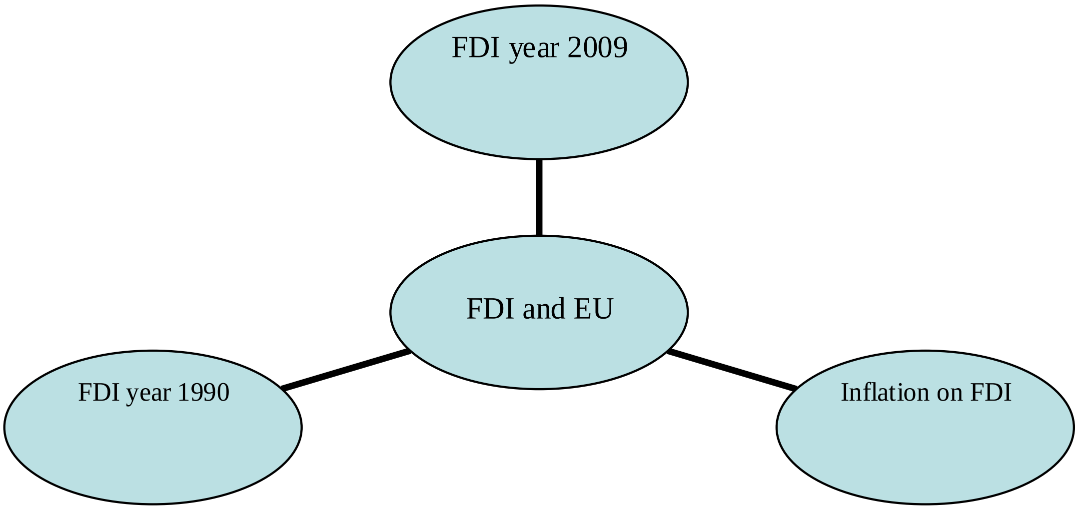
	1985		1990		1995		1999		2000	
Country	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
World total	$707.8	100.0%	$1,717.4	100.0%	$2,879.4	100.0%	5,004.8	100.0%	$5,976.2	100.0%
United States	251.0	35.5	430.5	25.1	699.0	24.3	1,130.8	22.6	1,244.7	20.8
United Kingdom	100.3	14.2	229.3	13.4	304.9	10.6	684.2	13.7	901.8	15.1
Japan	44.0	6.2	201.4	11.7	238.5	8.3	292.8	5.9	281.7	4.7
Germany	59.9	8.5	148.5	8.6	258.1	9.0	394.3	7.9	442.8	7.4
France	37.1	5.2	120.2	7.0	208.0	7.2	348.3	7.0	496.7	8.3
Netherlands	47.8	6.8	109.0	6.3	179.6	6.2	252.8	5.1	325.9	5.5
Switzerland	25.1	3.5	66.1	3.8	142.5	4.9	192.4	3.8	232.0	3.9
Italy	16.6	2.3	57.3	3.3	109.2	3.8	181.9	3.6	176.2	2.9
Canada	43.1	6.1	84.8	4.9	118.1	4.1	187.2	3.7	200.9	3.4
Developing Countries	32.4	4.6	81.9	4.8	258.3	9.0	468.7	9.4	710.3	11.9
European Union	293.0	41.4	790.3	46.0	1,312.5	45.6	2,448.7	48.9	3,110.9	52.1
Developed Countries	675.2	95.4	1,637.3	95.3	2,621.2	91.0	4,380.0	87.5	5,248.5	87.8

Source*:* Various "Country Fact Sheets," World Investment Report 2001, United Nations Conference on Trade and Development, Geneva, October 2001

During this same period, the proportion of FDI accounted by the European Union increased by approximately 25 percent, from 41.4 percent to 52.1 percent. It is interesting to note that Japan's proportion of FDI has declined from 11.7 percent in 1990 to only 4.7 percent in 2000. Reflecting their continued economic development, developing countries have increased their proportion of FDI from 4.6 percent in 1985 to 11.9 percent in 2000. (Source: International nature of business, 2004, pp.67). The volume of international trade in goods and services measured in current dollars approached $7 trillion in

1996. Merchandise exports, at $5.4 trillion, were 17 times what they were in 1970. The proportion of FDI accounted for by the U.S. declined by nearly one-third between 1985 and 2000, however, from 35.5 percent to 20.8 percent. During this same period, the proportion of FDI accounted for by the cent to 20.8 percent.

Fig 1 The volume of international trade and relationship of data collect.



Identify the direction of trade, or who trades with whom.

The percentage of total exports of all the categories of developed nations to other developed nations is declining with the exception of Canada's. Most of Canada's exports to developed countries go to the U.S, and they have been increasing since the U.S.-Canada Free Trade Agreement went into effect. Developing nations are selling more to each other, and U.S.-developing country trade is on the rise.

2.2 Foreign investment and its components

Foreign investment can be divided into two components: portfolio investment, which is the purchase of stocks and bonds, solely for the purpose of obtaining a return on the funds invested, and direct investment, by which the investors participate in the management of the firm in addition to receiving a return on their money. The distinction between these two components has begun to blur, particularly with the growing size and number of international mergers, acquisitions, and alliances in recent years. Source: International nature of business, 2004, pp.66).

2.3 Foreign Direct Investment, volume and the proportion of investors

The value of the outstanding stock of all foreign direct investment (FDI), worldwide, is over $ 5.9 trillion. Table shows how this total is divided among the largest investor nations. In 2000 the U.S. had 1.4 times the FDI of the next largest investor, the United Kingdom, and 2.5 times that of the third largest investor, France. (Kalon 2002)

3. Methodology and Research Goal

Explain the size, growth, and direction of U.S. foreign direct Investment.

The book value of foreign direct Investment has grown and now totals almost $3 trillion. The American FDI is more than double that of the United Kingdom, the next largest investor, which is closely followed by Japan. The direction of FDI follows the direction of foreign trade; that is, developed nations invest in each other just as they trade with each other. Note because of the new business environment, many international firms are dispersing the activities of their manufacturing systems to locations closer to available resources.

The decision where to locate may be either an FDI or trade decision. Foreign direct Investment in the U.S. has risen from $185 billion in 1985 to $630 billion in 1996.Firms from just five nations–United Kingdom, Japan, Netherlands, Germany, and Canada-own about three-quarters of the stock. But the entrance of FDI, are with problems in Republic of Macedonia. We are trying to do one comparative analyze between indicators of FDI on developing countries with indicators of FDI in Republic of Macedonia.

3.1 Recognize the value of analyzing trade statistics.

The analysis of trade statistics is useful to anyone starting to search outside the home market for new trade opportunities. Studying the general growth and direction of trade and analyzing the major trading partners will show businesspeople where the important trading activity is. Companies enter foreign markets (exporting to and manufacturing in) to increase sales and profits and to protect markets, sales, and profits. Foreign firms often buy American firms to acquire technology and marketing know-how. Foreign investment also enables a company to diversify geographically. One must be careful in using GNP blindly as a basis for comparing nations' economies. First, the reliability of the data is questionable. Second, the World Bank and other international agencies convert national currencies to dollars, the unit that usually appears in their statistics. Official exchange rates do not reflect the relative domestic purchasing powers of currencies.

3.2 Understand the international market entry methods

The two basic methods of entering foreign markets are exporting to and manufacturing in them. Exporting may be done directly or indirectly. A firm may become involved in foreign production through various methods: (1) wholly owned subsidiaries, (2) joint ventures, (3) licensing. (4) Franchising and (5) contract manufacturing.

3.3 This policy reform program in Albania and Structural Adjustment Credit

The Government of Albania has adopted a comprehensive policy reform program to strengthen Albania's weak institutional and governance capacity. This policy reform program is being supported by a Structural Adjustment Credit, which was approved by the Bank in June of 1999. The overall objective of the proposed Public Administration Reform Project is to provide required resources for technical assistance, training, goods and incremental operating costs that are needed to implement the Government's Institutional and Public Administration Reform agenda effectively. The Development Credit Agreement (DCA) states the objective of the project to be: The objective of the Project is to assist the Borrower to improve its capacity with regard to policy formulation and coordination, and administrative performance so as to create conditions that will encourage the Department of Public Administration of the Borrower to improve their service delivery.

H 1 Explain the many forms of strategic alliances in west countries and in Republic of Macedonia

Many firms are forming strategic alliances with competing companies, suppliers, and customers to gain access to new products, technology, and markets and to share resources, costs, and risks. Strategic alliances take many forms, including licensing, mergers, joint ventures, and joint research and development contracts. A firm can have, and usually does have, an international strategy that is partially multi-domestic in some dimensions and partially global in others. Management must decide the extent to which the firm should globalize along each dimension (Source: International FDI, July, 1999, pp.79).

H 2 Comprehend that globalization of an international firm occurs over at least seven dimensions and that a company can be partially global in some dimensions and completely global in others.

3.4 The problems that are identify in Republic of Macedonia

3.4.1 Strong nationalism

Strong nationalistic sentiment may cause the foreign firm to try to lose its identity by joining with local investors. Care must be taken with this strategy, however. Although a large number of people in many developing countries dislike multinationals for "exploiting" them, they still believe, often with good reason, that the products of the foreign companies are superior to those of purely national firms. One solution to this ambivalence has been to form a joint venture in which the local partners are highly visible, give it an indigenous name, and then advertise that a foreign firm (actually the partner) is supplying the technology. Even wholly owned subsidiaries have followed this strategy. *(Source: International Management business, July, 1999, pp.74)*

3.4.2 Seven Global Dimensions and Management reforms

There are at least seven dimensions along which management can globalize (standardize): (1) product, (2) markets, (3) promotion, (4) where value is added to the product, (5) competitive strategy, (6) use of non-home-country personnel, and (7) extent of global ownership in the firm. The possibilities range from zero standardization (multi-domestic) to standardization along all seven dimensions (completely global). (Adlere 1999) Management's task is to determine how far the firm should go with each one. Usually the amount of globalization will vary among the dimensions. For example, the promotion for washing machines can be standardized: People use them to get their clothes clean, but for economic reasons, in poorer countries the machines must be simpler and less costly. Therefore, the product is not standardized worldwide.(Source: International nature of business, July, 1999, pp.78, 79).

4. Analyze in Macedonia situation, real data and facts

Although the marketing in foreign TV's to present Macedonia like an attractive place for foreign investors, different visits of Prime Minister in different countries around the world, last year and this year, Macedonia still is in the last place to attract foreign direct investments compared with other countries of the region.

4.1 Investments and operational efficiencies in Macedonia

In the other hand this Government shows clearly the nationalist politic and shows an example of ethnic discrimination, because the investments that have been done in Macedonia were all in the East Macedonia which is populated with Macedonian ethnicity. So, in that region will be open new places for job, and will be reduced unemployment in this region. One investment that will start is from Russia, concentrated in meat industry. The biggest investment was also in East Macedonia form an American company "Johnson controls" a global company offering products and services to optimize energy and operational efficiencies of buildings, automotive batteries and interior systems for automobiles. This investment of 20 million Euros will employ more than 1 400 employees; will improve the standard of living in that zone. Other 20 million Euros investment in East Macedonia that will start to work in the end of this year is from a German company" Kromberg & Schubert" a global actor confirmed the manufacture of automotive harnesses and will employ more than 2 000 employees. Unfortunately in regions which are populated with Albanian ethnicity there are no investments, but just promises and promises all over the years and nothing is done!

4.2 Influences of NATO and EU

All the companies that invest in R.M want to maximize their profit. I think that in R.M the key problem for foreign investment is that state has not a stabile economy; we cannot predict what will happen in the economy in future because everyday changes something because of the political crisis, corruption is on the highest level. To achieve this Government need to work hard to remove national and religion disagreements between the communities that lives in these country, not to encourage this disagreements to remove the nation's attention from the economic crisis. If these political crises would not be happened R.M would now be the part of NATO or EU and for investors could be like a proof that will invest in one stabile country.

5. Conclusions and Recommendations

After the endorsement of the O F Agreement, Macedonia has undergone a long and complex way of reforms of FDI, towards its European integration goal. Some of the steps include the Stabilization and Association Process, endorsement of the Stabilization and Association Agreement and the accomplishment of the application questionnaire as a candidate country for EU membership. The country is currently going through a phase of two parallel FDI processes that converge to the country's full membership in the EU: the process of ratification of the Integration Agreement between Macedonia and the EC as well as the process of implementation of remaining FDI reforms in order to accomplish the whole set of membership criteria.[1]

[1] Referred to as "the former Yugoslav Republic of Macedonia" by the EU

The fully standardized criteria for membership in Macedonia and Albania on EU were most accurately determined by the Copenhagen Summit I 1993 Macedonia, Montenegro and Turkey are all official candidates states while Albania and Serbia have applied for membership. Bosnia and Herzegovina has concluded an association agreement and is preparing an application while Kosovo is beginning negotiations for an agreement. The Western Balkans have been priority for membership since emerging from war during the breakup of Yugoslavia; Turkey has been seeking membership since the 1980s and Iceland has lodged its application since suffering economic collapse in 2008.

2. Regional cooperation is a principle of the highest importance for the political stability, the security and economic development of the WBs countries: Albania, Bosnia and Herzegovina, Croatia and Republic of Macedonia. Many of the FDI challenges facing the WBs countries are not only common to them but also have a cross-border dimension, which involves their regional neighbors. The political dimension of regional cooperation, FDI and Regional cooperation in the WBs is: needed as a crucial ingredient of stability; about helping overcome nationalism and intolerance and promoting mutual understanding and political dialogue in the region.

References

Ari Kokko, ˝How Foreign Investment Affects Host Countries˝, Washington D.C., 1997

Beata K. Smarzynska, ˝Technological leadership and Foreign Investors˝Choice of Entry Mode, Washington D.C., 2000

Charles W.L.Hill, ˝International Business˝, New York, 2007

Debra Johnson & Colin Turner, ˝International Business – Themes and issues in the modern global economy˝, New York, 2004

Donald A. Ball, Wendell H. McCulloch, ˝ International Business – The challenge of Global Competition˝, New York, 1999

Donald A. Ball, Wendell H. McCulloch, Jr. Paul L. Frantz, J. Michael Geringer, Michael S. Minor, ˝ International Business – The challenge of Global Competition˝, New York, 2004

Hill, Charlles, ˝International Business˝, New York, 2005

Ilia Kristo, ˝Biznesi ndërkombëtar˝, Tirana, 2004

International Finance Corporation, ˝Foreign Direct Investment˝, Washington D.C., 1997

Irena Kikerova, ˝Megunarodna ekonomija˝, Skopje, 2003

John H. Dunning, ˝Governments, Globalization and International Business˝, New York, 2003

Kamga Wafo, ˝Political Risk and FDI˝, Konstanz, 1998

Marcus Noland, ˝Competition Policy and FDI˝, Washington D.C., 1999

Marios I. Katsioloudes & Spyros Hadjidakis, ˝International Business˝ - A Global Perspective, Burlington, 2007

OECD, ˝Survey of OECD WORK ON International Investment˝, Paris, 1998

Paul R. Krugman & Maurice obstfeld, ˝International Economics˝, Boston, 2003

Rajneesh Narula, ˝Trade and Investment in the Globalizing World˝, Amsterdam, 2001

Rajneesh Narula, Sanjaya Lall, ˝ Understanding FDI˝– Assisted Economic Development, London, 2009

Stephan Thomsen, OECD, ˝Investment Patterns in a Longer-Term Perspective˝, Paris, 1999

United Nations, ˝World Investment Report 2000˝, New York, 2000

United Nations, UNCTAD ˝Trends in International Investment agreements: an Overview˝, New York and Geneva, 1999

Williamson, John, ˝ Political Economics and International Money˝, New York, 1989

Williamson, John, ˝The open Economy and the World Economy˝, New York, 1983

www.finace.gov.mk

Zejnulla Veseli, Koha, Skopje, 2012