Review
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THE INFLUENCE OF FOREIGN DIRECT INVESTMENT ON THE ECONOMIC DEVELOPMENT

Natasha Ristovska[1]
Aleksandra Stoilkovska
Ivona Ravlikj

Abstract
Foreign investments have an impact on the development of the economy in the host country, through the transfer of capital, technology and management practices. In addition, they contribute to improving business activities of domestic companies, as well as to the development of human resources in the country in which they have invested. This paper presents implemented action research that describes the benefits of investment conditions in the Republic of Macedonia, and thus the impact of foreign investment on its economic development; we rely on. A survey of foreign companies that have realized investments in the country, in order to understand their perspectives on the conditions for investing in the local economy. The paper also aims to demonstrate the role of the state in promoting the favorable conditions for in-coming investing firms. In the efforts to enhance the local economy there is a need for attracting foreign investors with investments that would increase the competitiveness of domestic product markets, contribute to the performance of domestic companies and improve the labor markets of the host.

Keywords: international management, business environment, strategy, foreign investors.

Jel Classification: M160

INTRODUCTION

Through the conditions of globalization, liberalization of markets, removing the barriers to the movement of products, services, capital and information, the investment process is facilitated and intensified. Companies create strategies for the expansion of business activities and growing their presence on the global market. International management is understood as a way of managing the international companies. There is no country in the world which is economically sufficient by itself and is completely independent of other

[1] **Natasha Ristovska,** PhD, Assistant Professor; **Aleksandra Stoikovska**, PhD, Full Professor; **Ivona Ravlikj**, MSc, University of Tourism and Management in Skopje, Macedonia.

countries. The trend of a single global economy presents connection and expansion of the markets, which provides unlimited opportunities for the international companies and managers. The process of globalization creates greater competition between companies in the world, while also deepen their interactions that rely on mutual cooperation through which they could maintain their competitive edge in the market.

The international environment is filled with challenges that include analyzing the new market, its impact on the domestic company, planning and managing that will contribute an easier adaptation on the changing factors and effective application of ethical practices by companies (Adams 2009). The essential key for survival and success of the companies is the adapting to the changing environment. The choice of a system and style of managing depends on the nature and characteristics of the country or the market in which they perform, that includes the people and their needs and requirements as well as the main goal of the companies.

The decision of the management of companies to expand on the international market stems from the desire for greater profit, and the development of the company. In this decision, should be taken into account the differences between domestic and foreign markets. The analysis of the environment plays an important role in the selection of an international strategy for entering the new foreign markets. There are several ways to enter the international market. One of the most used and simplest is the export of products and services. Then licensing and franchising, joint ventures, foreign direct investments.

1. STRATEGIES FOR EXPANSION AND ENTERING ON THE INTERNATIONAL MARKET

One of the most commonly used terms in the international business is the globalization. This term is used to describe a number of related, but different, sociological, economic, political and business phenomena. In general, globalization refers to the development of global or world business activities, competition and markets and also the increase of global interdependence between the national markets (Branstetter and Saggi 2011).

The term “Globalization” is widely used in business circles and the economy, to describe the increasing internationalization of markets for goods and services, the financial system, companies and industries, technology and competition. In a globalized economy, the significance of the distances and national boundaries is significantly reduced due to removing the obstacles to market access. Also, there is a reduction of the costs, time and the distance in the international transactions. The changes caused by the dynamics of trade, capital flows and technology transfer have increased the interdependence of the manufacturing markets in different countries (Fu, Pietrobelli, and Soete 2011).

The growing intensity of international competition have increased the need for cross-border strategic interactions, directing the business companies to be organized into transnational networks. Globalization is characterized by the growth of interdependence in different aspects. Thus, foreign direct investment is accompanied by technology transfer and (know-how) knowledge, along with the movement of capital (international debt, repatriation of profits, and interest rates), generating exports of goods and services from the country of the investor (Alfaro et al. 2010).

When a company wants to conduct on a particular market abroad should analyze and assess the countries with which it intends to cooperate. Countries differ from one another in the potential for efficient production and purchasing power of consumers. It is not easy to choose the best path for expansion in a world made up of hundreds economies and regional blocs (Fernandes and Paunov 2012). There are many ways for a company to make such analysis before entering new foreign markets. The best way is to look first at the country's market and economic conditions.

The analysis of the external business environment is a major factor in determining the strategies of the company, especially if it concerns an international company that performs at the international market. Environmental factors, industry and market are directing the company towards a type of an international strategy; one that is fully standardized and global strategy or one that contains modifications of products and services in order to adapt to the local market. The analysis of the environment is actually a key element in the strategic process of the company, that includes receiving external information based on which the company can make strategic decisions.

The objective and strategy are seen as a means to unify, coordinate and motivate the company. The strategy can be determined through formal and planned process or a set of decisions and actions. The totality of the strategy is influenced by the outlook of the internal and external environment. Once the guidelines and objectives are defined, the company through corporate-level decision making, determines the scope of the organizational activities. Decisions relate to the choice of: on which market the company will perform (geographical range), which product will sell on that market (production range) and which activities should be performed (vertical range).

Strategies for entering the international market vary in the degree of risk that they contain, the control and engagement of resources and the return of investment. Entry strategies that offer the lowest degree of risk and control of the market are export and import. The highest risk and also the high degree of market control, through which is expected the return on invested capital, is of foreign direct investment, which may be through strategic alliances and greenfield investments.

2. FOREIGN DIRECT INVESTMENTS IN THE WORLD, SOUTHEAST EUROPE AND WESTERN BALKANS

Foreign direct investments are a way of entering in new foreign markets, through which the company realizes international direct investment in manufacturing units onto foreign market. There are two ways for direct investment: the company can make acquisitions of other companies on foreign market or it can develop its capacities in the foreign country from the beginning and it is called greenfield investment. Acquisitions are a popular way for entrance the foreign market, mainly due to the rapid access. In this strategy the risk is lower, unlike greenfield investments, and the results from the acquisition can be assessed more easily and accurately. Greenfield investments represent the establishment of a new company in a foreign market which is a daughter company of the international company from the home country. Most often this strategy is complex and expensive, but allows complete control of the international company and has the greatest potential for ensuring return on invested capital.

In recent years, investments from the European Union fell by about 25%. In 2012, China became the first destination for foreign direct investment, and the US retains its position as a leader in investing in the economy. In 2012, 44% of global inflows of foreign direct investment were introduced only in five countries. China is on the first place which attracted 253 billion (or 18% of the total), immediately thereafter the US ($ 175 billion), Brazil (65 billion dollars), the United Kingdom (63 billion) and France (62 billion dollars). Despite the decline of 25% in 2011 and the decrease in capital and intercompany loans, the US remains the first destination for foreign direct investments within the Company for Economic Cooperation and Development.

The European Union has lost its leading position in the world as the largest recipient of foreign direct investment. In the 2000s the inflow of foreign investment in the EU was 50% of the global flow, which until now has fallen to less than 20%. In 2013 only China received more inflows of foreign direct investment from all EU countries together. FDI inflows are very unstable, and it is due to a poorly monitoring of changes in the business environment (Herzer 2010).

South East Europe, similar to other transition countries, rely on foreign investors who will bring new capital that will cause economic growth, improving existing business procedures, updating outdated technology, opening new markets, increasing the potential for trade and bringing new technology and managerial skills (Kemeny 2010).

The key question for the Western Balkan countries is the lack of strategies for attracting foreign direct investment. They will not move forward until they spot the economic viability of the investment, the real motives for the arrival of foreign investors and the origin of their capital. FDI also have an impact on the development of the competitiveness of their companies, the international competitiveness of their products, increasing the employment rate and achieving higher living standards (Zugic 2011).

The Western Balkan countries have a low profile of competitiveness and lagging in almost all dimensions. In the last 5 years, Albania, Macedonia, Bosnia and Herzegovina and Montenegro have improved their positions in the rankings, while Serbia and Croatia saw a drop. Serbia and Bosnia and Herzegovina are considered as the poorest developed economies of the Western Balkans.

3. FOREIGN DIRECT INVESTMENTS IN THE REPUBLIC OF MACEDONIA

The impact of FDI on economic growth in the host country is multifaceted (Karabay 2010). The entrance of a foreign company in the domestic market brings multiple benefits including technology transfer, new management skills and knowledge, capital inflows, creating new jobs, training of staff, specialization of human capital (Kottaridi and Stengosb 2010). In addition, the new and powerful foreign competitor who performs on the market encourages domestic companies to take actions to improve their performances (Alguacil, Cuadros, and Orts 2002). Through the improved performances and increased competition, domestic companies may be involved in the distribution chain of foreign companies (De Maeseneire and Claeys 2012). The positive impact of FDI on economic growth can be observed through the specific data in the reports of the National Bank of Macedonia and National Institute of Statistics, in which the expressed values of FDI inflows between 1997 and 2015, according to the increase of FDI, can easily insight the percentage of economic growth. In addition, in the crisis years 2009 and 2012 in the country was recorded the lowest economic decline apart from the countries in the region. These positive results are due to the activities of the state to increase the country's attractiveness to foreign investors. For that purpose, until now, have been taken a series of measures and reforms that have an important role in improving the investment climate in order to attract more foreign investors, thereby increasing economic growth of the country, while decreasing the unemployment rate in all regions of the country (Feeny, Iamsiraroj, and McGillivray 2014).

Compared to previous years where the global economic crisis affected the inflow of foreign direct investment, in countries around the world as well as in the Republic of Macedonia, the situation in many countries is improving. Although, compared with the countries of the world who stand out as major economies that attract foreign investments, Macedonia can boast an increase in the inflow of foreign investors. In the period from 1997 to 2003, the inflow of foreign investment in the country is rising, with inflows of FDI increased from 141 million in 1997 to 1.285 million in 2003.

According to statistical calculations from the National Institute of Statistics, foreign direct investments in Macedonia in the period 2003–2007, amount to 947.5 million euros. The largest inflow of FDI was recorded in 2006, with 326.5 million euros. According to the report of the National Bank of Macedonia in the 2008th year, the inflow of foreign direct investments in the country amounted to 399.9 million euros, or 6.2%.

In the period 2007–2010, there is success in the implementation of the program to encourage investment. The increase of FDI inflows in the country by improving the investment and business climate is due to the measures provided in the Program for Attracting investments which is successfully implemented within the prescribed period. In 2011, according to a report by the National Bank, the inflow of FDI was 336.8 million euros.

The inflow of FDI in Macedonia after the decrease in investments in 2012 th year, again begins to increase. In the first six months of 2013, foreign direct investment amounted 101.4 million euros, compared to the same period of 2012, when they amounted 83 million euros, they have increased by 20%. According to the Department for Technological Industrial Development Zones in 2014 is noticed the biggest success in terms of FDI inflows in the country. With the entry of foreign companies in the country, despite economic growth, positive benefit is the opening of a large number of jobs.

It is considered that drivers of growth of the Macedonian economy in the future will continue to be foreign investment, higher capacity utilization and investment in infrastructure. Thus, in circumstances where the recovery of the global and European economy is still slow, the Macedonian economy is expected to register relatively high rate of economic growth. The entry of European companies on the Macedonian market has great contribution in improving the quality of their work, through the introduction of new technology and management knowledge and practices. Of total FDI in the country, 85% of investments are coming from European countries, and this trend is expected to continue in the future.

4. RESEARCH

The assumption that is treated in this paper refers to the improvement of the investment conditions in the country, which will increase the number of foreign investments. That would affect the development of the domestic market and the labor force in the country. In addition, market development will encourage the improvement of domestic companies, which would enhance the quality of products and services that are offered on that market (Garcia, Jin, and Salomon 2013).

Here emerges the subject of the research in this paper: The impact of the inflow of foreign direct investments on the economy development. The problem that will be investigated in this paper is: The insufficient inflow of foreign direct investments negatively affects economic development.

The survey was conducted on a representative number of 20 respondents, by filling out questionnaires that refer to the benefit of investment conditions in the country. All participants are foreign companies that have invested in the Republic of Macedonia. In the target groups are covered companies from different sectors such as telecommunications, power distribution, automotive, banking, hospitality, textile industry, film industry, supermarkets, construction industry, restaurants, health and cultural centers. Investigated foreign companies are located in several cities in Macedonia.

The majority of the respondents are large companies, while smaller numbers are medium and small companies. Their presence outside the Republic of Macedonia is in world frames, where most of the foreign companies are investing in Southeast Europe. These respondents were surveyed in May and June 2015, in the locations where they have invested as a foreign companies.

The general hypothesis of this paper is: If the country create conditions for foreign direct investment, then in the country will be invested which directly will affect the improvement of the economic situation.

5. RESEARCH RESULTS

The analysis of the questionnaire gives the following results:

To the claim: The Republic of Macedonia has a favorable business climate for doing business and investing, out of 20 participants: with 1 (completely disagree) replied one respondent. With 2 (partially agree) 0 respondents answered. With 3 (agree) replied one respondent. With 4 (substantially agree) answered 9 respondents. With 5 (totally agree) answered 9 respondents. Presented on a histogram:

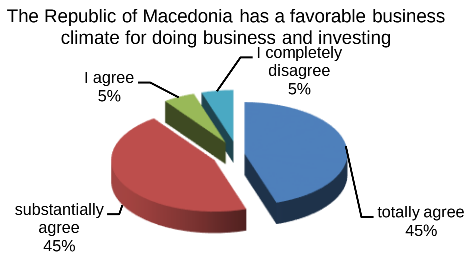

Figure 1. Business climate

To the claim: The tax system is favorable for investment in the country, out of 20 participants: with 1 (I completely disagree) responded 0 respondents. With 2 (partially agree) replied one respondent. With 3 (agree) answered 5 respondents. With 4 (substantially agree) 3 respondents answered. With 5 (totally agree) answered 11 respondents. Presented on a histogram:

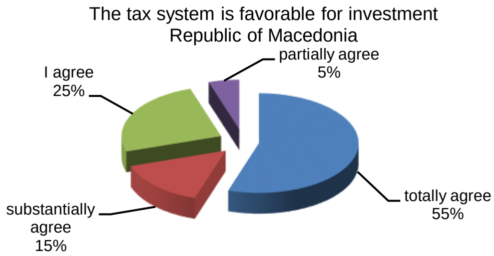

Figure 2. Tax system

To the claim: The labor force at your company is recruited from the market of the host country or the Republic of Macedonia, out of 20 participants: With 1 (I completely disagree) responded 0 respondents. With 2 (partially agree) 0 respondents answered. With 3 (agree) replied one respondent. With 4 (substantially agree) answered 6 examinees. With 5 (totally agree) answered 13 respondents. Presented on a histogram:

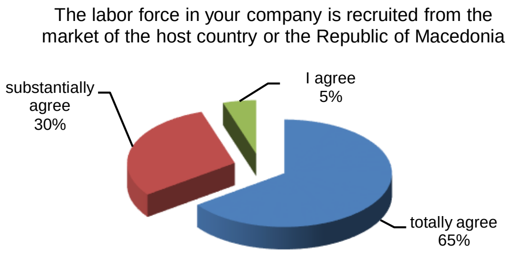

Figure 3. Labor force

To the claim: Republic of Macedonia conducts a good promotion of the conditions of doing business, out of 20 participants: with 1 (completely disagree) responded 0 respondents. With 2 (partially agree) 0 respondents answered. With 3 (agree) 3 respondents answered. With 4 (substantially agree) answered 9 respondents. With 5 (totally agree) 8 respondents answered. Presented on a histogram:

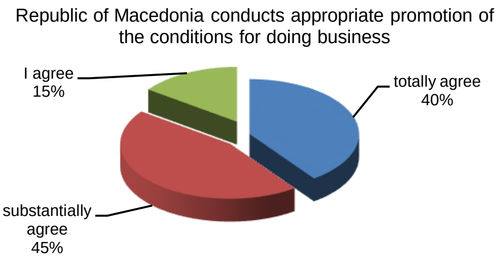

Figure 4. Promotion of investement opportunities

To the claim: You sell your products and services on the Macedonian market, out of 20 respondents; with 1 (I completely disagree) 2 respondents answered. With 2 (partially agree) 0 respondents answered. With 3 (agree) 0 respondents answered. With 4 (substantially agree) replied one respondent. With 5 (totally agree) answered 17 respondents. Presented on a histogram:

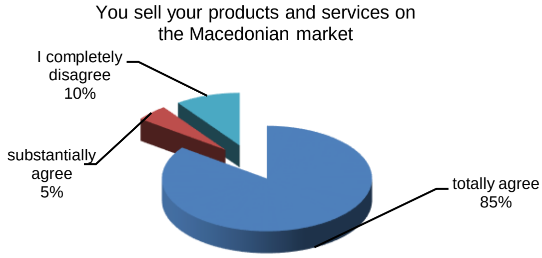

Figure 5. Selling products and services in the host market

To the claim: When entering a foreign market, you make transfers of proprietary technology and managerial practices in the host country, out of 20 participants: with 1 (strongly disagree) responded 0 respondents. With 2 (partially agree) 0 respondents answered. With 3 (agree) answered 2 respondents. With 4 (substantially agree) answered 2 respondents. With 5 (totally agree) answered 16 respondents. Presented on a histogram:

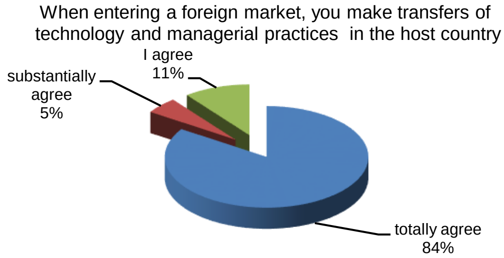

Figure 6. Transfers of technology and managerial practices in the host country

In order to prove the general hypothesis, the issues of the questionnaire were grouped according to specific variables of the general hypothesis. The issues refer to the administrative procedures and tax incentives, as well as the appropriateness of the workforce in the country, the effects of the promotional campaigns by the state and the impact of foreign companies on the development of domestic companies. By proving the specific assumptions, it is confirmed, as follows: If the country creates conditions for foreign investment, then in the country will be invested, which directly will affect the improvement of the economic situation.

CONCLUSION

The empirical research which was conducted in this paper had specific objectives and results. Based on the hypotheses there have been developed variables that have fully covered the expected results and their evaluation have led to certain conclusions.

From the empirical research conducted of a sample of foreign companies which have invested in the country derive the following conclusions:

The existence of favorable conditions for investment in the country affects the attraction of foreign investors; The more the country allows easier procedures for starting and running a business, the more foreign companies will be satisfied with the operating conditions in the country.

Facilitated administrative procedures are improving the conditions for doing business in the country; Obtaining approvals for starting a business and building, through electronic means, is the introduction of one-stop shop system, which restricts the time and expense of investors acts positively to the conditions for doing business in the country.

The tax system is favorable for investment in the country which affects the increase of foreign investments; The existence of a flat tax of 10% on personal income and corporate profits and tax exemption on reinvested or retained earnings is an additional item in building a positive business climate in the country, thereby allowing increased inflow of foreign investment.

Foreign companies affect the reduction of unemployment in the country by recruiting labor from the Macedonian market; Foreign companies who have entered the Macedonian market, recruited their employees from the labor market of the host country. Although the survey has shown that, according to foreign investors the labor force in the country does not have very low price, however most companies confirmed that their employees are recruited from the Macedonian market.

The labor force in the country is skilled and educated and has the possibility of further upgrading and development; As shown in the survey, foreign companies consider that the labor force in the country is enough skilled and educated. In addition, companies have programs for training and development of its employees, enabling further progress and qualification of employees.

The state makes an effective promotion of favorable conditions for doing business in the country; The favorable business climate in Macedonia is promoted worldwide. This is achieved through promotional campaigns of the state on the foreign media, as well as economic promoters and representatives abroad, whose role is to participate in international summits and conferences where they present the favorable conditions for doing business in the country.

How foreign companies affect the increasing of the competitiveness on the Macedonian market; According to the survey, foreign companies sell their products and services on the Macedonian market, thereby they increase the competition, so domestic companies are encouraged to improve the quality of their work.

How foreign companies affect the development of domestic companies; With the increase of competition, there is a need for domestic companies for further development and improvement. Upon entering a new and foreign competitors in the domestic market, not only increases the competition but at the same time there is a transfer of new and more sophisticated equipment and technology, which further increases the need for development of existing companies in the Macedonian market.

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