



Foreign Direct Investments in North Macedonia and the Balkan Region for the Period 2000–2021

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Abstract: *Having in mind that North Macedonia's goal is to integrate as much as possible into the global economy, it is particularly important to examine the extent and impact of FDI in North Macedonia. The topic underlines the importance that fulfills the purpose of this research, which is why foreign direct investment is important for a country, the factors that influence its growth and implementation in society. FDI is the driver of productivity, investment and economic growth. In addition, FDI increases the competitive pressure on the domestic market and stimulates technology transfer, innovation and digitalization. Through comparative analysis, we will try to show the movement of foreign direct investment in our country compared to countries in the region.*

1. INTRODUCTION

Foreign direct investment (FDI) is one of the most important instruments for intermediation in one national economy that stimulates production, importing of know-how, increasing of employment, etc. The benefits realized by the inflow of FDI, have caused fierce competition in the global free capital markets, all intending to attract as large and diverse FDI as possible. The general trend in the global FDI market is to blur the geographical boundaries between developing and developed countries: developing countries in recent years, in addition to being a growing FDI market, also tend to attract capital-intensive investments, as well as investments in research and development.

The intensified globalization and liberalization for the last few decades have increased the need for more productive activities, or the need to produce goods and services that will be able to withstand competition and survive in the market. For most countries, foreign direct investments are very important elements for activating their potentials and access to state-of-the-art technology. Also, the main carriers of foreign direct investment are multinational corporations.

Foreign direct investment (FDI) is a kind of investment that represents the objective of obtaining a lasting business interest by an investor in one economy, or in an enterprise from other economies. This lasting business interest implies that a long-term relationship exists between the investor and the enterprise and that the investor has a significant influence on the way the enterprise is managed. Such business interest is formally deemed to exist when a direct investor owns at least 10% or more of the voting power on the board of directors (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

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FDI may be seen as an alternative economic strategy, adopted by those enterprises that invest to establish a new plant/office or purchase existing assets of a foreign enterprise. These enterprises seek to complement or substitute international trade, by producing (and often selling) goods and services in other countries.

There are two kinds of FDI:

- the creation of productive assets by foreigners, and
- the purchase of existing assets by foreigners (for example, through acquisitions, mergers, takeovers).

2. FOREIGN DIRECT INVESTMENT, NET OUTFLOWS – NORTH MACEDONIA

The inflow of foreign capital in the form of foreign direct investment (FDI), has considerably increased in developing countries during the last few decades. FDI inflow fulfills the rising investment requirements to boost economic growth at a higher pace and helps macroeconomic stability in the economy. This non-debt foreign inflow makes the pressure on the balance of payment distortion to be easier. Technological transfer from developed countries to developing countries through FDI paves the way for economic development in developing countries. FDI affects the economic development of the recipient country at macro- and micro-level. At the macro-level it is beneficial for real sectors of the economy, for example, investments, exports, economic growth, and so forth, whereas, at micro-level, it creates technological spillover, training of manpower or it enhances management skills, etc.

Interaction between foreign and domestic investments could be of paramount importance. Actually, they both can cause each other. The increase in private investment signals a high return on investment in the domestic economy whereas public investment shows the improvement in infrastructure and thereby reduction in the cost of doing business. These roles of domestic investment motivate foreign investors to reap the benefits of high returns. However, the foreign capital inflow may also be beneficial for the investors of the host country. The impact of FDI on domestic investment is ambiguous; that is, FDI may have a crowding out or crowding in impact on domestic investment. Crowding out the impact of FDI means it is meaningless for the FDI recipient country, but crowding in the impact of FDI on domestic investment is beneficial for the host country.

Foreign direct investment refers to direct investment equity flows in an economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship.

The internationally accepted definition of FDI (from the sixth edition of the IMF's Balance of Payments Manual [2009]), embraces the following components: equity investment, including investment associated with equity that gives rise to control or influence; investment in indirectly influenced or controlled enterprises; investment in fellow enterprises; debt (except selected debt); and reverse investment.

What distinguishes foreign direct investment from other types of investment is that it provides a permanent inflow of international capital in the form of plant and equipment, cash and invest-

ment in human capital. The characteristic of this type of investment is that upon entering the country they take control of the company. IMF suggests that investments should account for at least 10 percent of voting stock to be counted as FDI. In practice, many countries set a higher threshold. Also, a significant number of countries fail to report reinvested earnings.

Private financial flows - equity and debt - account for the bulk of development finance. Equity flows comprise foreign direct investment (FDI) and portfolio equity. Debt flows are finances raised through bond issuance, bank lending, and supplier credits.

Table 1. Foreign direct investment, net outflows (% of GDP), North Macedonia

Year	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Foreign direct investment, net outflows (% of GDP)	0.049	0.324	1.770	0.901	-1.765	0.658	1.873	1.611	-0.509	1.160	-1.386

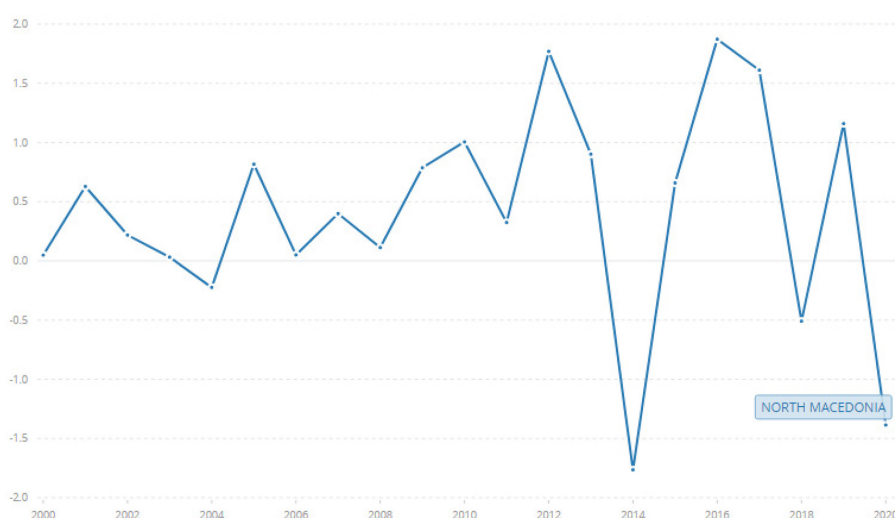


Chart 1. Foreign direct investment, net outflows (% of GDP), North Macedonia 2000-2020

3. FOREIGN DIRECT INVESTMENT, NET INFLOWS (% OF GDP) – NORTH MACEDONIA

Foreign direct investments are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. It is divided by GDP.

Data on equity flows are based on the balance of payments data reported by the International Monetary Fund (IMF). Foreign direct investment (FDI) data are supplemented by the World Bank staff estimated by using data from the United Nations Conference on Trade and Development (UNCTAD) and official national sources. BoP refers to the Balance of Payments.

Table 2. Foreign direct investment, net inflows (% of GDP), North Macedonia

Year	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Foreign direct investment, net inflows (% of GDP)	5.764	4.840	3.468	3.721	0.536	2.945	5.144	3.366	5.116	4.380	-

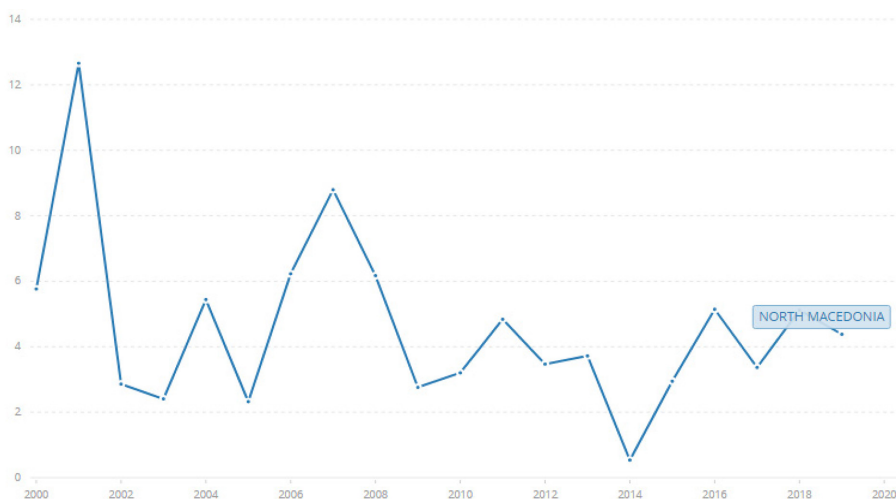


Chart 2. Foreign direct investment, net inflows (% of GDP), North Macedonia 2000-2020

4. NORTH MACEDONIA FOREIGN DIRECT INVESTMENT: PERCENTAGE OF GDP 2000 – 2021

Foreign Direct Investment (FDI) of Northern Macedonia increased by 7.5 percent of the country’s nominal GDP in June 2021, compared to a growth of 12.0 percent in the previous quarter. Historical data reached a maximum of 41.3% in March 2001 and a record low -6.3% in December 2020.

Foreign direct investment is calculated as % of nominal GDP of quarterly foreign direct investment and quarterly nominal GDP. According to the National Bank of the Republic of Northern Macedonia, foreign direct investments are calculated in USD. The State Statistical Office of the Republic of Northern Macedonia calculates nominal GDP in local currency. The average market exchange rate of the National Bank of the Republic of Northern Macedonia is used for currency conversion.

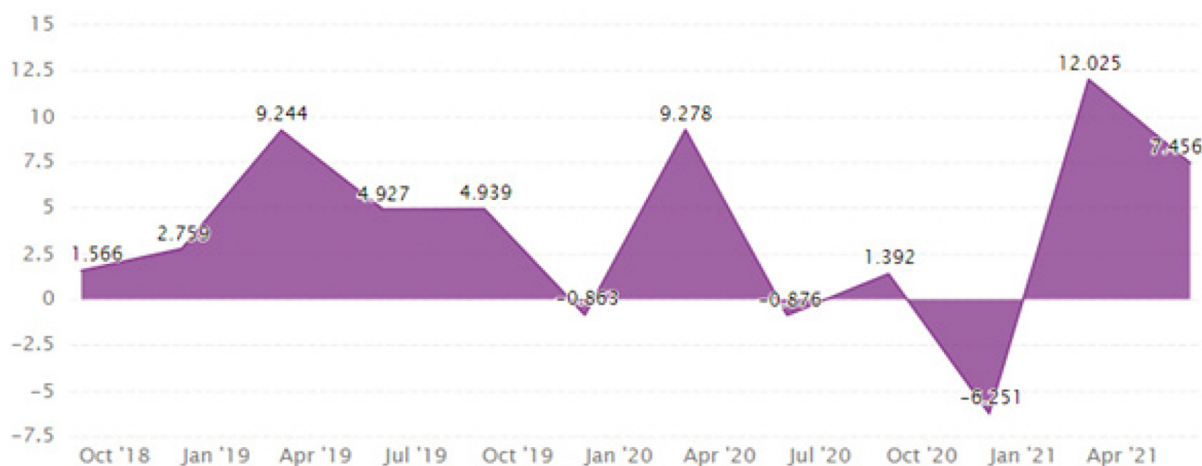


Chart 3. North Macedonia’s Foreign Direct Investment: percentage of GDP

The current account in North Macedonia recorded a surplus of 1.5 USD million in June 2021. Foreign Direct Investment (FDI) increased by 73.2 USD million in June 2021. North Macedonia direct investment abroad fell by 20.6 USD million in June 2021.

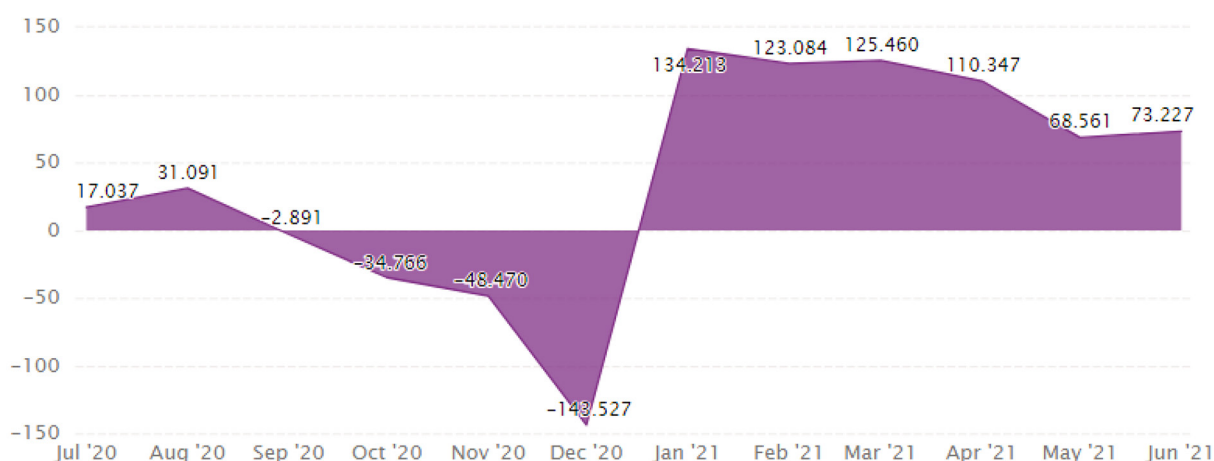


Chart 4. Foreign Direct Investment, USD million, North Macedonia

5. BULGARIA'S FOREIGN DIRECT INVESTMENT: PERCENTAGE OF GDP 2007 – 2021

Foreign direct investment (FDI) in Bulgaria grew by 3.6% of the country’s nominal GDP in June 2021, compared to 3.4% growth in the previous quarter. Foreign direct investment is quantified by calculating the percentage of nominal GDP that is updated quarterly, available from March 2007 to June 2021. From the analyzed period it can be noticed that historical results were achieved at the highest level of 31.0% in June 2007 and a record low level of -2.5% in September 2010.

The investments are calculated as a percentage of nominal GDP of monthly foreign direct investment and quarterly nominal GDP. The data that are analyzed and processed are expressed in currency - euros.

Foreign direct investment increased by \$ 524.5 million in June 2021. Bulgarian foreign direct investment expanded by \$ 59.0m in June 2021.

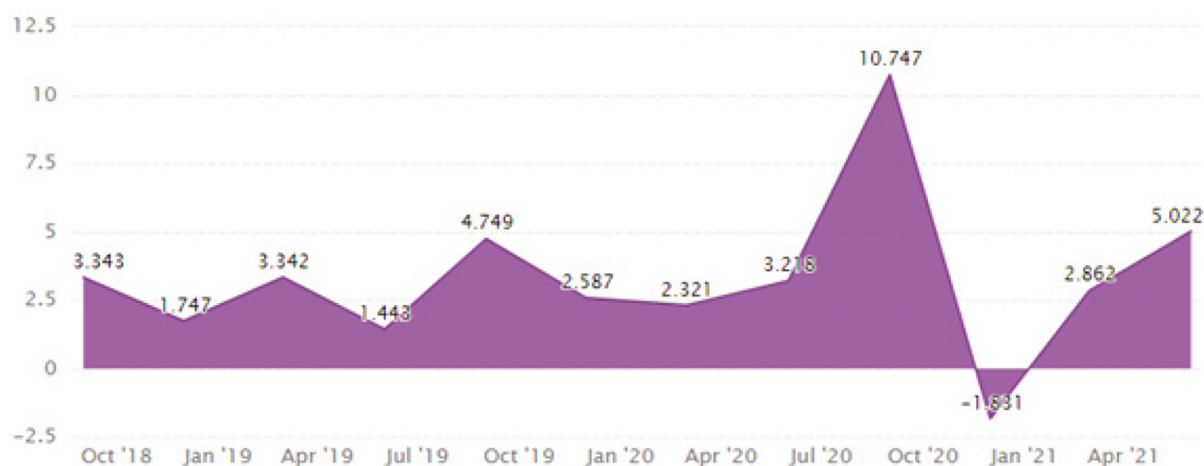


Chart 5. Bulgaria’s Foreign Direct Investment: % of GDP

6. ALBANIA'S FOREIGN DIRECT INVESTMENT: PERCENTAGE OF GDP 2008 - 2021

Foreign direct investment in Albania grew by 7.0 per cent of the country's nominal GDP in March 2021, compared to 6.8 per cent growth in the previous quarter. They are expressed as a percentage of nominal GDP and are updated quarterly. Historical results were achieved with a maximum of 14.3% in June 2009 and a record low level of 5.5% in June 2014. Amounts of data are expressed in euros, converting currencies at the market rate.

In Albania's latest reports, the current account recorded a deficit of \$ 372.6m in March 2021. Foreign direct investment (FDI) increased by \$ 275.8 million in March 2021.

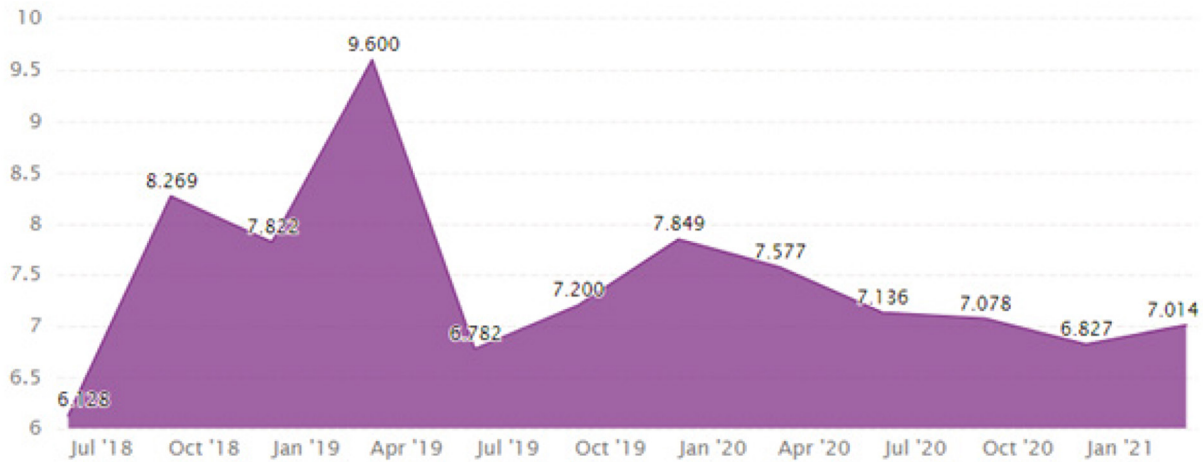


Chart 6. Albania's Foreign Direct Investment: percentage of GDP

7. BOSNIA AND HERZEGOVINA'S FOREIGN DIRECT INVESTMENT: PERCENTAGE OF GDP 2008 - 2021

Another country that is the subject of research in this paper in the Balkan region is Bosnia and Herzegovina, which recorded growth equal to 3.2 percent of the country's nominal GDP in March 2021, compared to growth equal to 1.7 percent in the previous quarter. The data on Foreign Direct Investment in Bosnia and Herzegovina are expressed in a percentage calculated from the nominal GDP which are updated quarterly. The Central Bank of Bosnia and Herzegovina provides foreign direct investment in local currency, not in euros as in other countries in the region.

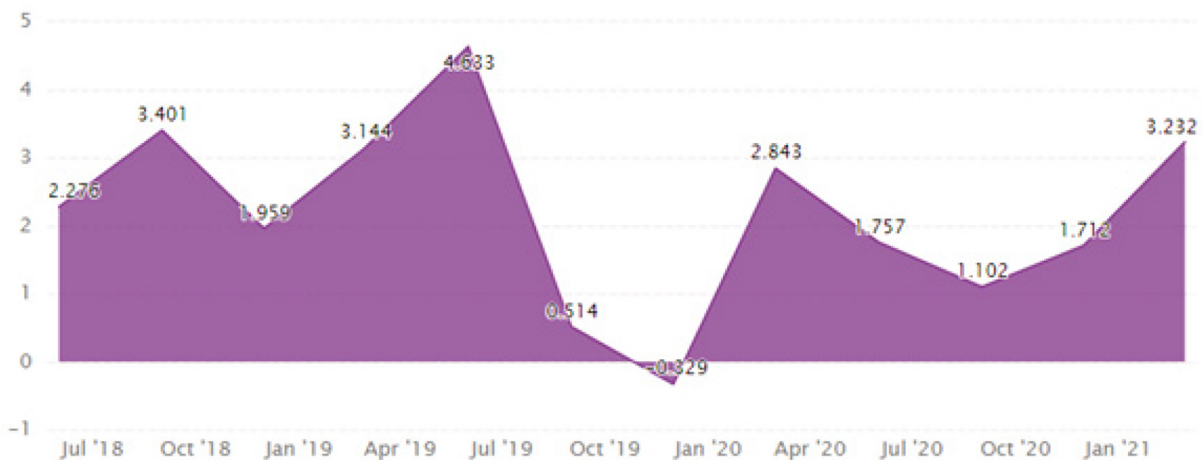


Chart 7. Bosnia and Herzegovina's Foreign Direct Investment: percentage of GDP

8. CROATIA'S FOREIGN DIRECT INVESTMENT: PERCENTAGE OF GDP 1995 - 2021

In each country, foreign direct investment has its ups and downs depending on the influence of external and internal factors. Croatia saw its growth in foreign investment in March 2021, amounting to 5.1 per cent of the country's nominal GDP, compared to a growth of 1.3 per cent in the previous quarter. Foreign direct investment data in Croatia is updated quarterly and is expressed in local currency based on BPM6.

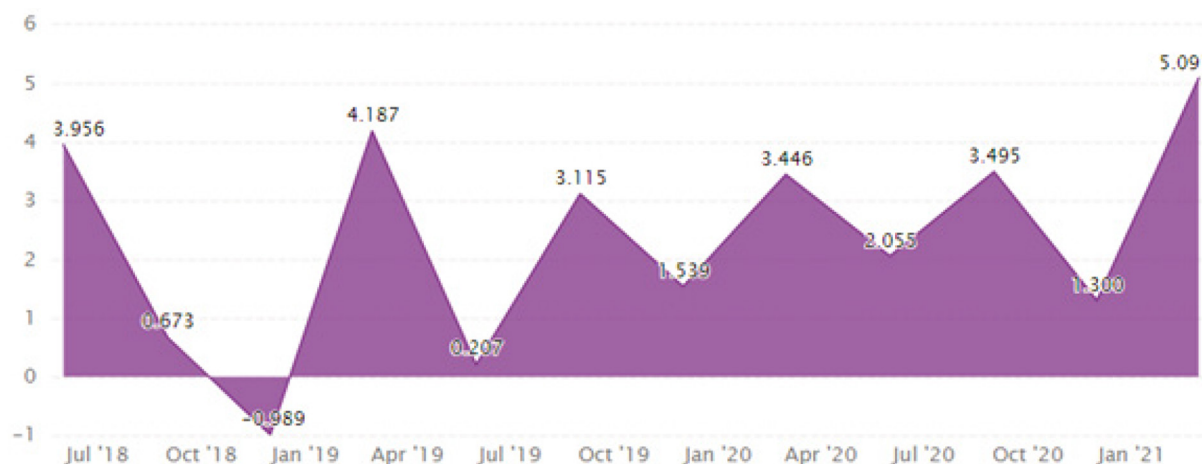


Chart 8. Croatia's Foreign Direct Investment: percentage of GDP

9. GREECE FOREIGN DIRECT INVESTMENT: PERCENTAGE OF GDP 1999 – 2021

Greek foreign direct investment (FDI) grew by 3.2 percent of the country's nominal GDP in June 2021, compared with a growth of 2.3 percent in the previous quarter. The analyzed data are expressed in percentages of nominal GDP which are updated quarterly, available from March 1999 to June 2021. Historical results were recorded in 2008 in June when they reached a maximum of 4.2% and a record low of -1.4% in March 2012. The data updated by the Greek Bank are expressed in euros based on BPM6. The Greek Statistical Office provides nominal GDP in EUR.

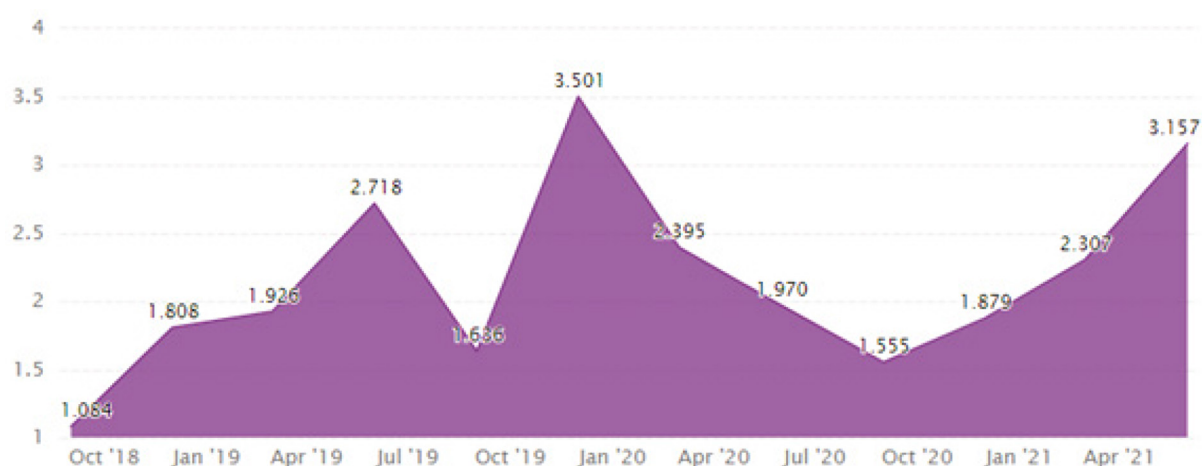


Chart 9. Greece Foreign Direct Investment: percentage of GDP

10. SERBIA'S FOREIGN DIRECT INVESTMENT

We end the part of the individual analysis and graphs with Serbia in which Foreign Direct Investment (FDI) increased by 227.9 million US dollars in February 2021, compared to the increase of 280.9 million US dollars in the previous month. Serbia's net foreign direct investment data (in millions of US dollars) is updated monthly, available from January 2013 to February 2021. Foreign direct investment achieves its peak of \$ 1.1 billion in December 2018 and a record low of \$ 41.9 million in February 2013.

In recent reports, Serbia's current account recorded a deficit of \$ 58.7m in February 2021. Serbia's foreign direct investment fell by \$ 6.8m in July 2021, as they were \$ 15.1 billion in December 2020.

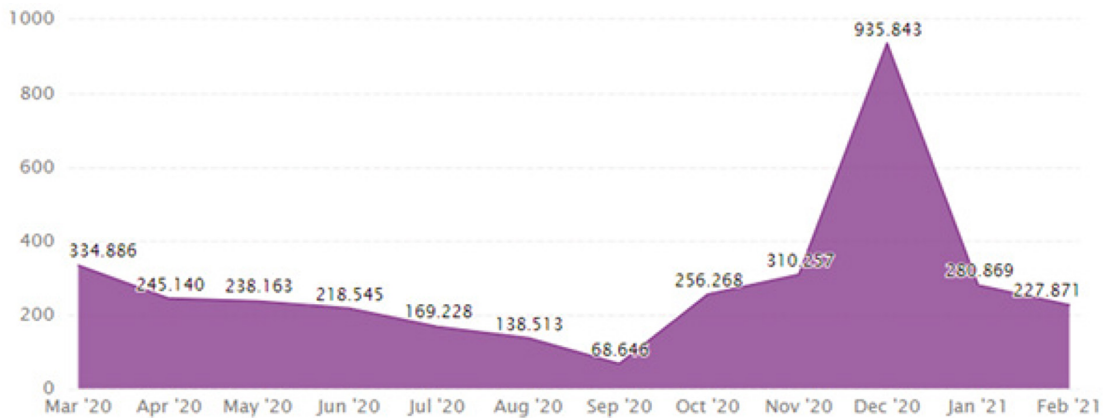


Chart 10. Serbia's Foreign Direct Investment

The next graphic representation (Chart 11) covers the data from October 2018 to April 2021, where the oscillations that occur in that period can be evident. Serbian Foreign Direct Investment (FDI) grew by 6.1% of the country's nominal GDP in June 2021, compared to growth of 8.2% in the previous quarter.

The data reached a historic high of 11.3% in December 2018 and a record low of 2.7% in September 2020. In the latest reports, Serbia's current account recorded a deficit of \$ 58.7m in February 2021. Foreign direct investment (FDI) increased by \$ 227.9 million in February 2021. Serbia's foreign direct investment fell by \$ 6.8m in July 2021. Foreign portfolio investments that are treated differently from direct investments decreased by US \$ 104 dollars.

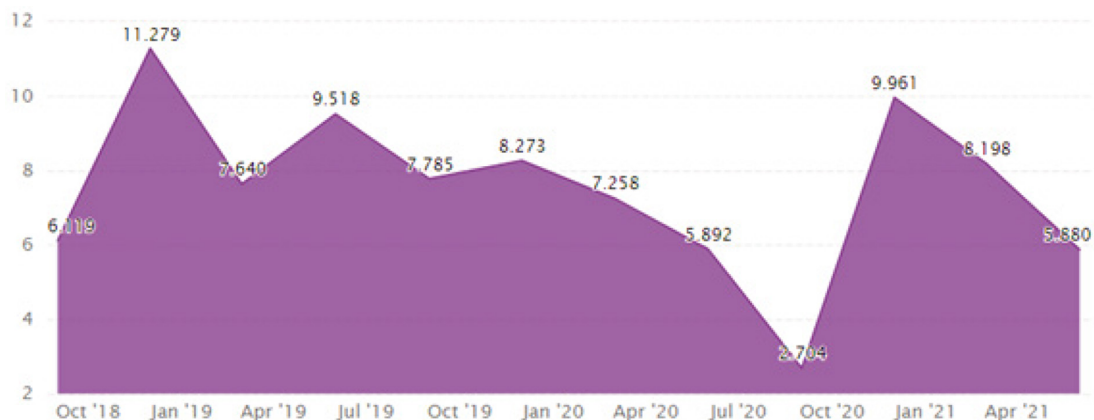


Chart 11. Serbia's Foreign Direct Investment: percentage of GDP

11. COMPARATIVE ANALYSIS FOR THE BALKAN REGION

The Balkan countries have been less successful in attracting foreign direct investment compared to the Central European countries. The influence and dynamics of foreign capital inflow depend on several factors that have had a direct or indirect impact on the investment policy of the Balkan countries. Political instability, low intra-regional trade and the small size of national markets are some of the reasons for this gap in FDI. One of the more successful Balkan FDI recipients is Bulgaria, while Greece is the main source of FDI for the transition economies of the Balkan region.

A stable political climate, cheap labor force, and stable legal system and legislation could be some of the basic premises that are desperate to attract foreign direct investment. Greek investments have been driven in part by the availability of a cheap labor force in nearby economies in transition. Also, this advantage was used by North Macedonia, which achieved the largest increase in a foreign capital with the availability of a cheap labor force as one of the preconditions for the investments.

Next tables and graphs will show the movement and figures for foreign direct investment, their net inflow and net outflow in the Western Balkans as the basis for a comparative analysis in the period 2000-2020.

From the tabular and graphical presentation of the net inflows, it can be concluded that the largest oscillations and changes in foreign direct investment as a % of GDP are recorded in Bulgaria, where in 2007 it has a value of 31.247 to a value of 1.922 in 2014. The greatest consistency and the smallest differences for the period under consideration can be observed in Greece where the values range from -0.006 to 2.435. In North Macedonia, the greatest value can be seen in 2001, when happened the biggest investment boom, and the lowest value 0.536 was recorded in 2014.

Table 3. Foreign direct investment - North Macedonia, Serbia, Bosnia and Herzegovina, Greece, Croatia, Albania, Bulgaria, net inflows (% of GDP)

Year	Albania	Bulgaria	Bosnia and Herzegovina	Greece	Croatia	North Macedonia	Serbia
2000	4.109	7.561	2.653	-0.006	4.692	5.764	
2001	5.285	5.732	2.061	0.001	4.497	12.659	
2002	3.105	5.515	4.026	0.022	3.658	2.859	
2003	3.173	9.916	4.561	0.697	5.324	2.406	
2004	4.750	11.746	8.395	0.893	3.160	5.440	
2005	3.260	13.720	5.558	0.278	3.999	2.322	
2006	3.655	22.904	6.576	1.980	6.637	6.228	
2007	6.109	31,247	11.674	0.614	7.734	8.796	10.246
2008	9.682	18.914	5.258	1.618	7.474	6.172	7.771
2009	11.171	7.490	0.786	0.838	4.904	2.759	6.486
2010	9.138	3.658	2.584	0.180	2.579	3.203	4.049
2011	8.135	3.666	2.529	0.386	1.997	4.840	10.010
2012	7.451	3.309	2.275	0.687	2.589	3.468	2.945
2013	9.816	3.576	1.723	1.235	1.611	3.721	4.255
2014	8.693	1.922	2.936	1.146	5.524	0.536	4.249
2015	8.691	4.386	2.363	0.650	0.106	2.945	5.909
2016	8.805	2.766	1.852	1.400	0.811	5.144	5.788
2017	7.855	3.404	2.818	1.723	0.859	3.366	6.552
2018	7.951	2.733	2.947	1.897	1.976	5.116	8.041
2019	7.857	3.028	1.931	2.435	1.926	4.380	8.293

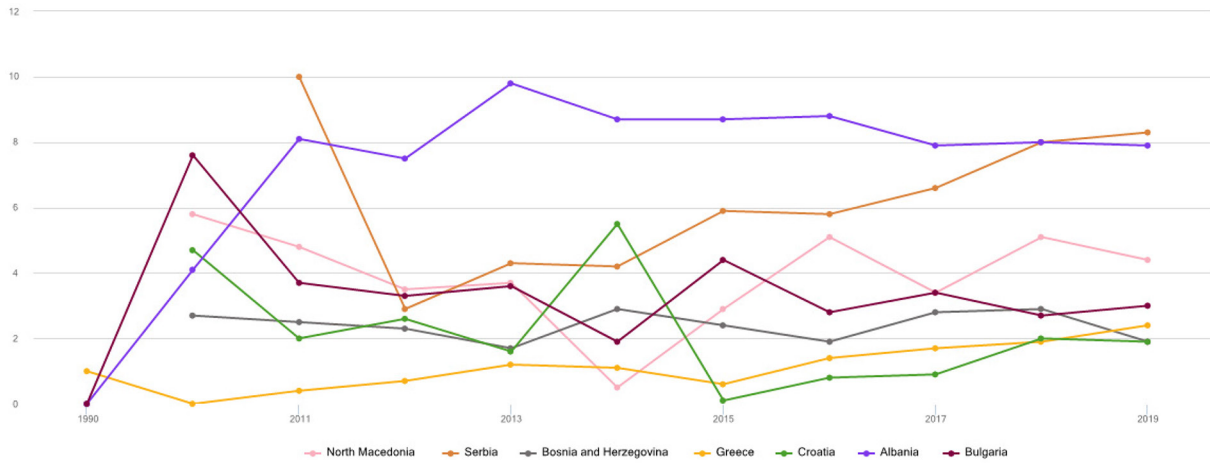


Chart 12. Foreign Direct Investment, net inflows, Balkan Region

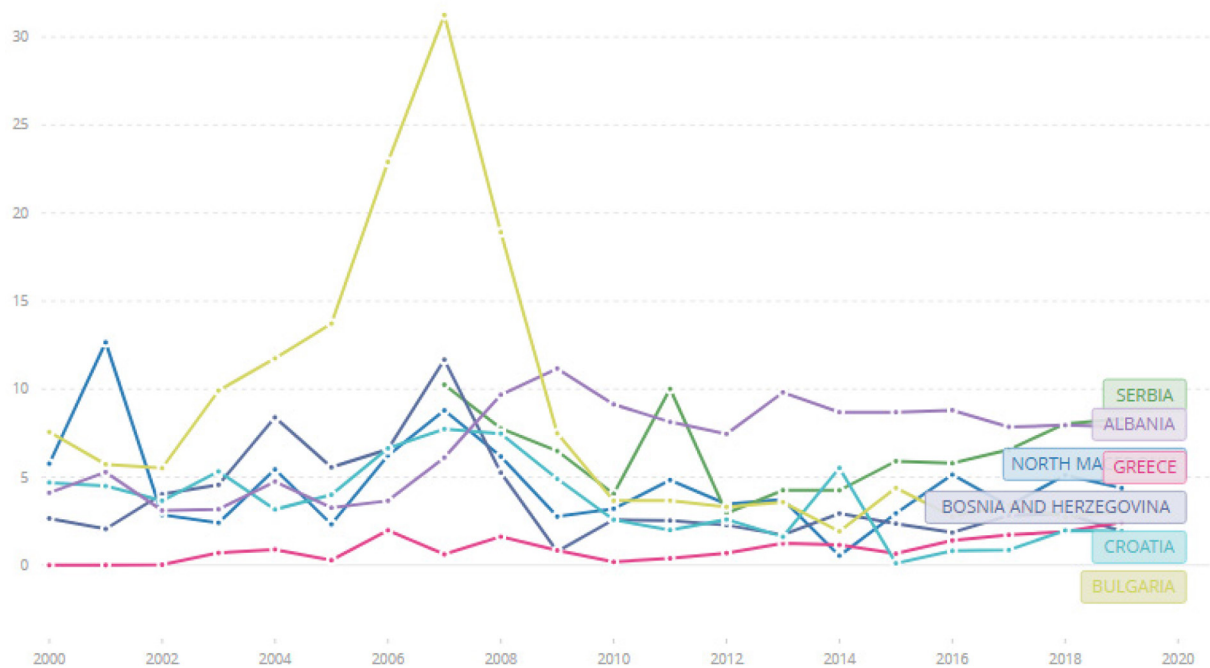


Chart 13. Foreign Direct Investment, net inflows, Balkan Region 2000-2020

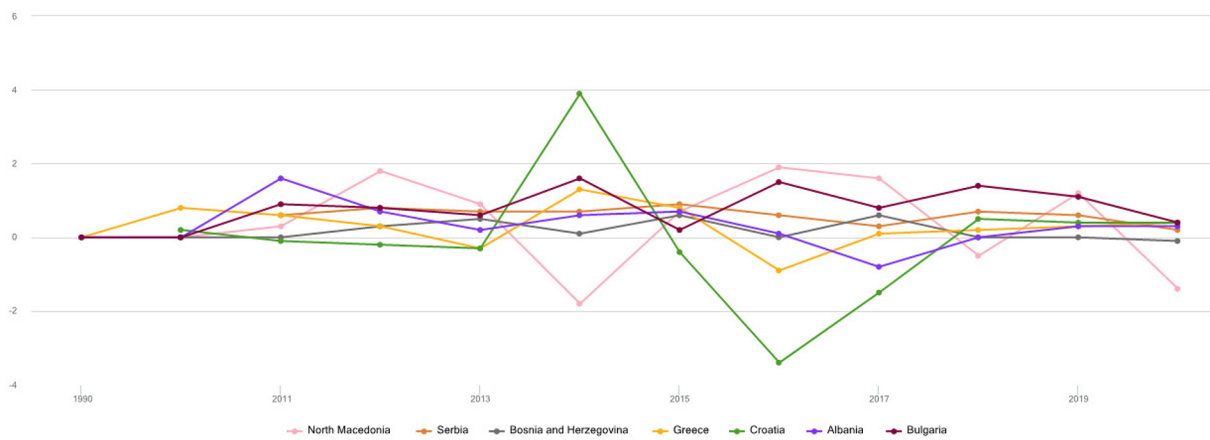


Chart 14. Foreign Direct Investment, net outflows, Balkan Region

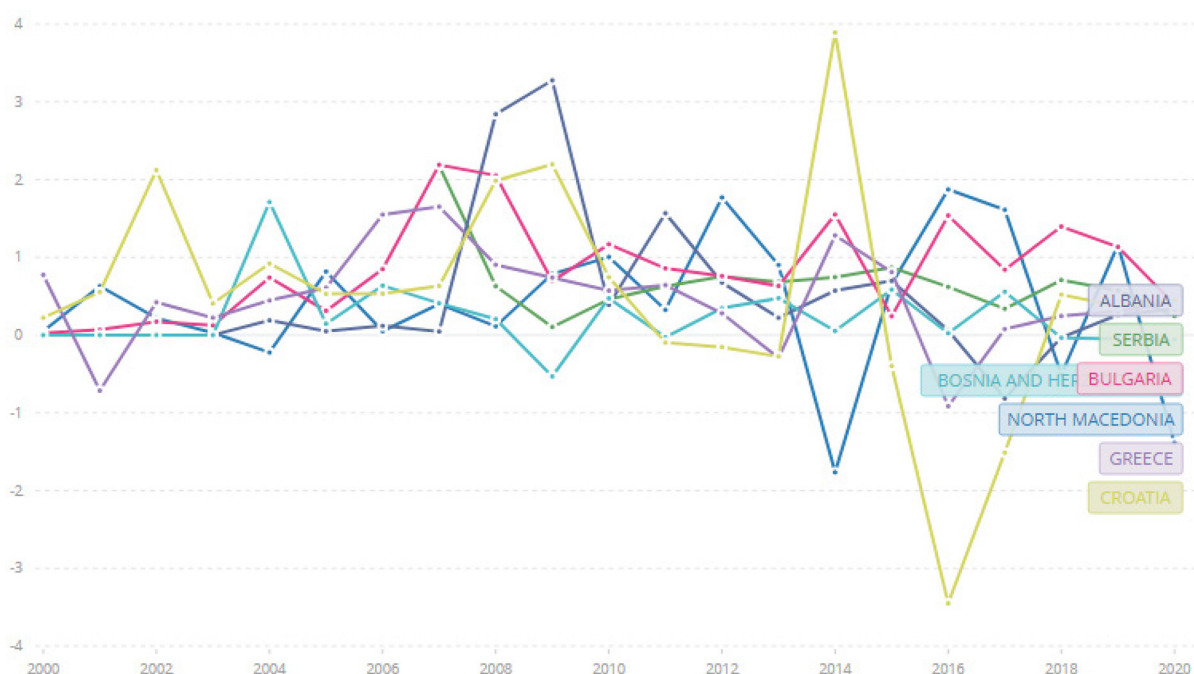


Chart 15. Foreign Direct Investment, net outflows, Balkan Region 2000-2020

Table 4. Foreign direct investment - North Macedonia, Serbia, Bosnia and Herzegovina, Greece, Croatia, Albania, Bulgaria, net outflows (% of GDP)

Year	Albania	Bulgaria	Bosna and Herzegovina	Greece	Croatia	North Macedonia	Serbia
2000	0.000	0.025	0.000	0.775	0.222	0.049	
2001	0.000	0.068	0.000	-0.714	0.554	0.628	
2002	0.000	0.173	0.000	0.422	2.122	0.218	
2003	0.000	0.125	0.000	0.224	0.408	0.032	
2004	0.189	0.739	1.711	0.445	0.921	-0.224	
2005	0.050	0.312	0.146	0.608	0.531	0.817	
2006	0.118	0.849	0.636	1.549	0.533	0.051	
2007	0.046	2.189	0.409	1.652	0.632	0.400	2.179
2008	2.841	2.053	0.206	0.905	1.986	0.113	0.629
2009	3.277	0.694	-0.531	0.740	2.196	0.787	0.104
2010	0.389	1.170	0.473	0.572	0.745	1.005	0.461
2011	1.568	0.858	-0.026	0.643	-0.097	0.324	0.629
2012	0.675	0.759	0.346	0.280	-0.154	1.770	0.756
2013	0.223	0.632	0.475	-0.292	-0.274	0.901	0.686
2014	0.572	1.551	0.054	1.282	3.891	-1.765	0.745
2015	0.697	0.243	0.584	0.810	-0.398	0.658	0.868
2016	0.059	1.537	0.023	-0.915	-3.450	1.873	0.620
2017	-0.816	0.841	0.557	0.078	-1.512	1.611	0.338
2018	-0.030	1.396	-0.035	0.245	0.521	-0.509	0.707
2019	0.262	1.134	-0.048	0.305	0.373	1.160	0.575
2020	0.336	0.395	-0.057	0.424	0.447	-1.386	0.245

From the tabular and graphical presentation of the net outflows, it can be concluded that the largest oscillations and changes in foreign direct investment as % of GDP are recorded in Croatia where in 2014 it has a value of 3.891 to a negative value of -3.450 in 2016. Also, it can be seen a positive impact on the net outflow only in Serbia and Bulgaria where in this research period it can be noticed that the numbers have a positive value.

From the tabular and graphic representations, it seems that there are large movements and oscillations of the net inflows and net outflows of direct foreign investments in the Western Balkan countries. The programs and commitments that are undertaken in North Macedonia have noticeable results and it is important to mention that on the business climate in the country, they have a great impact. The COVID-19 crisis is affecting the entire economy, which has forced companies and investors to adapt to a new way of functioning, and that is digitalization in all segments of the economy.

12. CONCLUSION

A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside the country's borders.

FDI is a challenge for developing countries that requires a lot of hard work. Namely, FDI is seen by the developing countries as a source for economic development and modernization, which means income growth and higher employment.

Consequently, almost every developing country has been liberalized FDI regimes and pursued other investment policies. They addressed the question of how to conduct domestic policies to maximize the benefits of a foreign presence in the domestic economy. By focusing on the overall effect of FDI, the macroeconomic growth in the host country can be influenced. Given the host country's appropriate policies and a basic level of development, FDI is causing technology overflows, helping to build human capital, contributing to international trade integration, helping to create a more competitive business environment, and enhancing enterprise development as well. All this contributes to higher economic growth, which is the most powerful tool for poverty alleviation in developing countries. In addition to the purely economic benefits, FDI can help the improvement of the environmental and social conditions in the host country, for example, by transferring "cleaner" technologies and leading to more socially responsible corporate policies.

From the tabular and graphic representations in the paper, it can be seen that there are large movements and oscillations of the net inflows and net outflows of direct foreign investments in the Western Balkan countries. Unfortunately, for the last two years, the COVID-19 crisis has had a major impact on foreign direct investment, with a severe impact on the economies of the Western Balkans.

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