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MASTER'S THESIS

OVERVIEW OF FOREIGN DIRECT INVESTMENT STRATEGIES OF MULTINATIONAL COMPANIES: THE CASE OF WESTERN MACEDONIA

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AUTHORSHIP STATEMENT

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INTRODUCTION

Hymer (1979) was the first economist to claim that the main motive of multinational companies (hereinafter: MNCs) to transfer manufacturing operations abroad is precisely the existence and exploitation of imperfect competition in the domestic market, which allows them to capitalize on some sort of competitive advantage. He was the first to connect MNCs and foreign direct investments (hereinafter: FDIs), by claiming that the movement of FDIs is associated with the international operations of the MNC, aimed at maintaining control over production and exploiting some sort of superior competitive advantage in foreign markets in order to overcome the so-called **liability of foreignness** (hereinafter: LoF) faced by MNCs abroad. From this viewpoint, the company would either perform better than its competitors, or it would gain benefits resulting from the educated labor force, low-cost of raw materials and other productions factors, access to capital, and/or technology. MNCs, according to Hymer (1979, p. 1), are seen as *"the dominant organizational form of modern capitalism"* and *"a key method of organizing international exchange"* (ibid. p. 5). In economic terms, MNCs today constitute around a quarter of global GDP and contribute somewhere around a third of global exports (UNCTAD, 2012). In developing and transition markets, among which we can also fit Macedonia, MNCs have been shown to be important drivers of economic transition, employment and technological transfer (Dunning & Lundan, 2008).

The **general subject area** of this Master's Thesis relates to the examination of the different kinds of international strategies applied by MNCs in foreign markets. More precisely, I shall focus on analyzing the situation regarding MNCs and their FDIs in Macedonia, and specifically on their strategies in the western region of Macedonia. My main task here is to present an overview of contemporary international MNC strategies by using a combination of theoretical and analytical approaches. Furthermore, I shall focus on the specific strategies employed by foreign MNCs in Macedonia, particularly in the western part, by looking at the types of FDIs present in the country.

The need and the problem for examining strategies applied by MNCs stem from the fact that MNCs have become a very important segment of Macedonia's economy, its production and export potential (as can be illustrated by Figure A1/ Appendix 1).

MNCs are companies which are often engaged in producing specific products and/or services that are not produced by other (domestic) competitors. A huge portion of international trade and various forms of economic cooperation in the world take place between MNCs themselves and their numerous foreign subsidiaries and affiliates, or as part of the extensive global value chains (Rašković, 2012). In this regard, MNCs play an important role in connecting Macedonia with the world in economic and other terms. Many companies operate as MNCs, because with such activities they are closer to their suppliers, markets and their customers. In this regard, **market-seeking, resource-seeking** and **asset-**

seeking motives are the most common sets of motives driving the behavior of MNCs (Dunning, 1998). They also make advantage of locating themselves in places where production costs are relatively lower and the prices of their products are more competitive. Dunning (1981) extended this idea and developed his famous O-L-I eclectic paradigm, where MNCs optimize their ownership (O), location (L) and internalization (I) advantages. Thus, MNCs arrange and reduce the possible risk and maximize their profit in myriad ways (Blomstrom et al., 2000). Because of this, some see them also as extreme predators engaging in "*systematic appropriation of rents*" from host environments (Zanfei, 2005, p. 7).

To achieve their goals, MNCs choose from an array of strategies aimed at optimizing short-term performance (profit maximization or risk reduction) and long-term competitive advantage (Rašković, 2012). The choice of strategy very often depends on the actual analysis of the environment (internal and external), as well as specific company resources and capabilities (Hollensen, 2013).

Globally, MNCs are the main carriers of FDIs and are used to facilitate the transfer of capital, technology, people and/or other resources. Such FDIs enable the investors to acquire the rights of ownership, control and/or management of the entity in which they invest (Moosa, 2002). FDIs can be realized through the establishment of subsidiaries in foreign countries, which is known as **Greenfield investment**. They can also take place through the purchase of a controlling ownership share in an existing enterprise (so-called **brownfield investment**), irrespective of whether it is done by merging with already existing company, or merger, or by purchasing the existing enterprise, or acquisition (M&As). FDIs represent a kind of a global strategy "for performance" of MNCs through which they provide not only their presence in global markets (Dunning, 1993), but also integration into global value chains (Kowalski et al., 2015). Dunning (1981) developed the Eclectic theory (O-L-I paradigm) by integrating the theory of industrial organization, the location theory and the theory of internalization. This paradigm, which has not lost its relevance and topicality even today, answers three critical issues related specifically to FDIs, which also lay at the heart of this Master's Thesis. Namely:

- **Which** companies will invest abroad?
- **Where** they will invest? and
- **Why** the company will opt for FDIs rather than export?

The effects of FDIs are equally important to the economies they come from and to the destination economies, though it is often thought that they could be bigger for the host country compared to the country of origin of the investor (Dunning, 1993). This is particularly true for the so-called low- and middle-income countries, or developing economies; including Macedonia as a transition country (Figure A2/ Appendix A highlights this point.).

For these reasons, most, or even all, developing countries are becoming more open and apply more liberal conditions for attracting MNCs to their territory. The best example of this has probably been China, where MNCs and FDIs have been the key economic drivers of their reform and opening up policy starting in the late 1970s (Naughton, 2007; Vogel, 2011). In doing this, they offer and provide favorable conditions for investment and performance in whatever form the MNCs decide to do so.

The **purpose** of my Master's Thesis is to present and review various types of strategies employed by MNCs in Macedonia, more precisely in western Macedonia. Special emphasis will also be given to the typology of MNCs, especially Bartlett and Ghoshal's (1989) MNC typology, as well as on the strategic orientations of MNCs. In this regard, the main goals of this Master's Thesis are as follows:

- To give an overview of the situation, movement and structure of FDIs in Macedonia;
- To review the presence of various (types of) MNCs in Macedonia;
- To review the implementation of specific strategies by MNCs in the western part of Macedonia;
- To draw conclusions from my research and come up with managerial and policy recommendations (to aid future decision making).

FDIs represent a kind of global strategy through which companies provide their presence in foreign markets. This is particularly true for the low- and middle-income countries or the developing countries, including Macedonia, as a middle-income country. An overview of the types of contemporary international strategies, the types of FDIs of the MNCs backed up by statistical data about the world and Macedonia, as well as a review of the MNCs and their FDIs in the western part of the country will be elaborated as part of my research in this Master's Thesis. All this will help me answer my **key research question**: **Which of the so-called "contemporary international strategies" are mostly applied by MNCs in their investments in (western) Macedonia?**

In support of my main research question, there is yet another set of more precise additional research questions, which I will try to answer in this Master's Thesis:

- What are the basic strategies applied by MNCs in foreign markets?
- What role do MNCs and FDIs have in the Republic of Macedonia?
- How many and which MNCs have invested in the western part of Macedonia, as well as what strategies have they applied and why?

In the first chapter, I present a definition of MNCs and various types of criteria for their operationalization. I continue by looking at the role of MNCs for national economy, followed by a definition of FDIs and motives for internationalization, as well as an overview of antecedents and determinants of FDIs. In the second chapter, I described the typology of MNCs, especially Bartlett and Ghoshal's (1989) typology, which is seen as the

most influential MNC typology to this day (Rašković et al., 2013). I further look at various kinds of strategic orientations of MNCs.
In the third chapter, I analyze FDIs in the Republic of Macedonia. The main focus in this chapter is on mergers and acquisitions and Greenfield investments in the Republic of Macedonia. The structure of FDIs in different industries, geographic origin of inward FDIs, the impact of FDIs and the regulatory framework of the Republic of Macedonia for FDIs is also discussed in this chapter.

In the fourth chapter, my analytical work focuses on the examination of different kinds of international (performance) strategies of MNCs in Macedonia. I focus in particular on analyzing the current situation, movement and structure of FDIs in Macedonia, and continue analyzing specifically their (performance) strategies in the western region. Here, I draw on my theoretical framework in previous chapters to explain the so-called contemporary international strategies of the MNCs and their impact on MNC's performance.

In the fifth part of this paper I present some recommendations for MNCs entering Macedonia, as well as for policy makers in Republic of Macedonia. I finish this Master's Thesis with a short conclusion.

1 MULTINATIONAL COMPANIES

International business covers business transactions, both private and governmental, which involve two or more countries (Daniels, Radebaugh & Sullivan, 2002). This is a fairly traditional definition which closely links international business to transactions and trade flows. On the other hand, Makovec Brenčič et al. (2009) emphasize both the transactional and non-transactional (process) nature of international business, which incorporates aspects of foreign trade, as well as international marketing, international management and even international finance (Czinkota et al., 2005).

A number of reasons have forced companies to expand their operations to other countries. Some of the reasons are: (1) saturation of their domestic markets, (2) entry of foreign competitors, (3) exploitation of economies of scale and experience, (4) cheap labor force, (5) cheap resources, (6) profit maximization, (7) acquisition of cross-border knowledge, etc. (Daniels, Radebaugh & Sullivan, 2002). In a more systematic manner, Hollensen (2007) provides the following classification of company internationalization motives and triggers, as depicted in Table 1.

Table 1 provides an overview of the major internationalization **motives** and **triggers**. Internationalization motives are classified proactive and reactive. **Proactive** motives represent stimuli to attempt strategy change, based on the company's interest in exploiting unique competences (e.g. special technological knowledge) or market possibilities.

Reactive motives indicate that the company reacts to pressures or threats in its home market or in foreign markets and adjusts passively to them by changing its activities over time (Hollensen, 2007). For internationalization to take place someone or something within or outside the company (the so-called "change agents") must initiate the process and carry it through to implementation. These are known as internationalization triggers. Internationalization triggers can be divided into internal or external triggers (internal or external events taking place to initiate internationalization) (Hollensen, 2007).

Table 1. Classification of Company Internationalization Motives and Triggers

Proactive motives	**Reactive motives**
- Profit and growth goals. - Managerial urge. - Technology competence/unique product. - Foreign market opportunities / market information. - Economies of scale. - Tax benefits.	- Competitive pressures. - Domestic market: small and saturated. - Overproduction/excess capacity. - Unsolicited foreign orders. - Extended sales of seasonal products. - Proximity to international customers / psychological distance.
Internal triggers	**External triggers**
- Perceptive management. - Specific internal event. - Importing as inward internationalization.	- Market demand. - Competing firms. - Trade associations. - Outside experts.

Source: S. Hollensen, *Global marketing*, 2007, pp.42-49

If a company decides to become international, it needs first an international mindset and an appropriate international strategy to expand its business abroad. Such international strategy needs to be based on appropriate resources, skills and activities (Hollensen, 2007; Makovec Brenčič et al., 2009). Globalization of the world economy has forced companies to constantly grow, often through international expansion, if they intend to remain in the markets. Air traffic, web conferencing, e-mail networks and real-time communications enable companies, from one location, to manage their entire operations globally. International operations are attractive for owners, whose goal is to increase profits and reduce costs, as well as constantly learn and develop. Larger markets offer greater opportunities for success and greater demand, but are also accompanied by greater competitive pressures and (often) also corresponding risks. The largest 500 MNCs in the world account for more than 90% of the world FDIs, and thus account for over half of the world trade, which confirms the major role of MNCs in the development of the world economy (Daniels, Radebaugh & Sullivan, 2002).

1.1 Definition of a MNC and its Criteria

In literature, besides the term MNCs, terms such as multinational enterprises (MNEs) and transnational corporations (TNCs) are also often used as synonyms. The difference is that the ownership and management rights are mono-national in a TNC, while MNEs and MNCs can indeed be used interchangeably (Aggarwal et al., 2011). According to UNCTAD, TNCs are incorporated or unincorporated enterprises comprising of parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that *controls* assets of other entities in countries other than its home country, usually by owning a certain equity capital stake (UNCTAD, 1999).

MNCs are companies that carry out activities in several countries (at least in two), whose activities are controlled by one centralized management body that designs a strategy and operations on the basis of the observed characteristics of the host country (Moosa, 2002). A similar definition is also the one employed by the OECD, which sees MNCs as companies engaged in FDIs and with ownership and/or control of value-adding activities across national borders (Dunning, 1993). MNCs are constituted of a company in the country of origin and of other affiliated companies in the host countries. A large MNC may carry out activities in more than 100 countries with a huge number of employees. MNCs are pursuing a varying number of activities, such as, for example (Moosa, 2002):

- import and export of goods and services;
- making a significant investment in a foreign country; and
- buying and/or selling licenses in a foreign country (as well as other types of contractual operations).

According to Ietto-Gillies (2013), there are distinguishing characteristics of modern MNCs compared to other types of companies. The so-called direct production, or direct business activity in a foreign country or countries is a distinguishing feature typical for MNCs. In order to be able to perform direct business activities abroad, MNCs are forced to open and manage subsidiaries, or affiliates in various foreign countries and thus take over the ownership and/or control of the assets. This corresponds to a long-term interest, translated in the management policies and strategies they implement in the companies under their control. Control is dominant in decision making (known as “ownership control”) and in organizing and managing the processes, particularly those performed from a distance. The remote management and organization model embeds swift communication and secure transportation, as well as steady internal set-up of the companies. Such control could only be established with the technological and organizational novelties introduced in the modern TNCs. According to Ietto-Gillies (2013), the growth of MNCs is owing to the improvement of technology and reduction of costs in the transportation and communication sectors, as well as to the changes in the organizational structure of the big companies, not excluding the political setting.

Similarly, according to Teece (1985. p. 233), a multinational enterprise (hereinafter: MNE) is a company that controls and manages production establishments located in at least two countries. They can be divided into two non-mutually exclusive types. One turns out essentially the same line of goods or services from each facility in several different locations, and will henceforth be referred to as horizontally integrated MNEs. The other produces outputs in some facilities which serve as inputs into other facilities located across national boundaries (Teece, 1985). Common to all definitions of MNCs is that MNCs are companies that perform their value-adding operations in at least two countries.

According to Rašković (2012), there are numerous and different *indicators* in literature that relate to the performance and internationalization of MNCs, which primarily serve to explain the various criteria of **multinationality** of a MNC, which lies at the heart of its nature. Many authors provide varying definitions of a MNC based on those indicators. For example, according to Caves (1982), a MNC is a company that has established at minimum **one subsidiary** in a foreign country. On the other hand, Kwok and Reeb (2000) define a MNC as a company which possesses more than 1% foreign assets. Lecraw (1983), in defining MNCs, emphasizes the industry-specific nature of multinationality and compares the importance of FDIs for the company with the average achieved in the respective industry (Aggarwal et al., 2011).

Building upon the model proposed by Birkinshaw's (2000), Cerrato (2006) defines a MNC as a company with a specific organizational hierarchy, or even as an individual internal market system (Aggarwal et al., 2011). Moreover, Cerrato sees the hierarchy as a form of organization, while markets and companies are seen as types of institutions. Hedlund (1986) extended the definition of a MNC and defined it as **heterarchy** (Rašković, 2012). This extended definition was the basis for the transnational solution offered by Bartlett and Ghoshal (1989) in their seminar MNC typology, and the network-differentiated model of MNC defined by Nohria and Ghoshal (1997) (Rašković, 2012). Despite being relatively old, they have profoundly shaped contemporary international business and management, and still remain relevant (Rašković et al., 2013)

Morgan, Kristensen and Whitley (2003) define a MNC as a network-based transnational community, operating in different social backgrounds and relations, i.e. they work on the socio-economic perspective of a MNC (Aggarwal et al., 2011). It is very likely that Kogut and Zander's (1993) definition of a MNC as a social community was the original inspiration for Morgan, Kristensen and Whitley's definition of a MNC as a network-based transnational community (Aggarwal et al., 2011).

In the past, it was thought that multinationality of one company was closely related with the size of the company itself and its constant progress, measured by the increased business activity and application of a specific strategy. This Penrosian view was very much related to the so-called resource-based view of the firm (Makovec Brenčič et al., 2009; Rašković, 2012). According to Aggarwal et al. (2011), lately, scale is no longer considered crucial for multinationality, nor an essential determinant of a MNC (Makovec Brenčič et al., 2009).

The first systematic outline and analysis of all existent definitions of MNCs was presented by Aharoni in 1971. In his overview, he analyzed different aspects of MNCs, which he classified into: (1) performance, (2) structural and (3) behavioral aspects of MNCs. On the basis of those aspects, he defined 19 distinctive indicators of a MNC, which helped in shaping different complex indexes of multinationality of a MNC (Rašković, 2012). For example, typical performance criteria include: number of subsidiaries, sales in foreign markets, or share of foreign assets. Typical structural criteria include: share of foreign employees, share of foreign equity and foreign exchange listing. Lastly, typical behavioral criteria of multinationality include: foreign-based R&D, extent of marketing adaptation and share of foreign branding/intellectual property protection.

Besides the numerous definitions of MNCs in the literature outlined by Aggarwal et al. (2011), one important issue refers to the use of different terminology. For an illustration, the varied use of the terms transnational and multinational, as in "*multinational company (MNC), multinational enterprise (MNE) and transnational corporation (TNC), which are widely and often interchangeably used by international business (IB) commentators and scholars"* (Aggarwal et al., 2011, p. 557).

The issue of varied use of terminology and existence of myriad of definitions of MNCs was also tackled by Michailova and Mustaffa (2011), who speak of the increased significance and advancement of MNCs in the last two decades. According to them, the increased interest in MNCs leads to increased fluidity of the field (Rašković, 2012). In this regard, Jaklič (2004) argues that, although the terms multinational and transnational company (MNC and TNC) are very often used as synonyms in literature, in their work Bartlett and Gshohal (1989) use these terms in different contexts relating to various types and strategic orientations of the "generic" MNC (Rašković, 2012).

However, it is probably difficult to imagine that the "*complex and dynamic IB landscape with its rich ecology of varying age, size, industry, strategy and international scope*" could develop a standardized definition of a MNC (Aggarwal et al. 2011, p. 573). Since this is unlikely to happen, it is necessary to come to an "*agreement on a classification system for the degree of firm-level multi-nationality that can be used to classify all firms with respect to the extent of their international involvement*" (Aggarwal et al. 2011, p. 573).

1.2 The Role of MNCs for (National) Economy

The role of MNCs in global economy is crucial, since they make a link between developed and emerging economies through transferring technology, know-how, knowledge, capital and assets, as well as ideas, strategies and values across the frontiers of their country of origin (Meyer, 2003). Furthermore, MNCs cause both positive and negative spillovers, due to their embeddedness and their interaction with various institutions, organizations and individuals in the receiving countries (Rašković, 2014). Yet, there is the question of merits and dangers of globalization from MNCs and their FDIs in the developing countries, in particular.

It is very important for policy makers to understand the role of MNCs in the host countries. It is indeed the policy makers that set the standards and conditions for the operations of MNCs depending on the general policy "streams" in their country. They need to see the influence of MNCs on domestic companies and on the overall socio-economic development of the country in order to formulate appropriate strategies and policies (Meyer, 2003).

Another important issue for policy makers is how MNCs affect the environment. The positive effect of the spillovers is often used to increase the image of the company, which is certainly not the case with the negative effect of the spillovers, which often results in negative reaction of stakeholders (Meyer, 2003). Nevertheless, the overall effects of MNCs on the economy of the host country are unclear. According to Meyer (2003, p. 5), "*some FDI is good, almost certainly some is harmful. But exactly what kind of investment falls in each category is frightfully difficult to determine, even if the effects are measured only against economic criteria*".

MNCs are also seen as an empirical phenomenon. They often emerge as a result of various market transactions, since they are mainly interested in maximizing profit, or share value. Yet, they may also emerge from non-market transaction, if there is an exchange of intangible assets, such as knowledge and know-how (Meyer, 2003).

Policy makers are mainly interested in the specificities that affect the size of MNCs, such as the undertakings of the investor, its features, investment projects, local companies and policy framework since the receiving economies and the domestic companies are largely affected by the FDIs of MNCs. Hence, the relationship which is being established between the foreign investors and the local businesses is complex and depends on various factors (Meyer, 2003).

As the role of MNCs is changing globally, there is a constant need for reassessment of the role of FDIs in emerging economies (Dunning 1994, Narula & Dunning, 2000). Therefore, the changing role of MNCs results in essential modifications in the coordination of the global business operations of the MNCs and in the cooperation with the domestic partners.

According to Meyer (2003), competitiveness at national and company level depends mostly on the knowledge which is increasingly tacit and embedded in the companies. Thus, the receiving countries very often wish for entry of knowledge-based MNCs. MNCs perform their business operations at the global level and strive to create new strategies which would utilize the resources available at different locations. Such strategies include global sourcing and strategic asset seeking, which in turn leads to more complex interactions with the economy of the host country. Moreover, policy makers say that FDIs play an important role in building industrial clusters.

The emergence and development of MNCs, according to Ramamurti (2001), has resulted in establishing trade and investment regimes, decreased possibility for the local governments to interfere in the operations of MNCs and narrowed scope for implementing industrial policy at a national or sub-national level. However, one of the topics discussed at various social levels concerns the role of FDIs and MNCs in developing countries. Various aspects of the role of FDIs and MNCs have been considered in detail so far for the purpose of drafting rational assessments of the impact of MNCs on the receiving economies. Economists, political scientists and sociologists participate largely in such discussions, as well as international business scholars. They all provide information and remarks essential for the understanding of how MNCs function, how can the performance of MNCs be improved, what is the role of MNCs in the society, how MNCs affect local businesses, etc. (Ramamurti, 2001).

Through their FDIs, MNCs attract a lot of attention and interest in all countries worldwide. Hence, every host country strives to promote and attract FDIs because of their contribution to the national economy (Hetes et al., 2009). According to Abor and Harvey (2008), there are many countries which offer favorable conditions, taxes and financial incentives to attract FDIs. In their opinion, the efforts done by the governments to attract FDIs significantly reduce the budget revenues (due to the costs they incur for attracting FDIs, as well as the direct budget subsidies they provide to the foreign investors) which might be otherwise used for investing in education and infrastructure. This automatically speeds up the country's economic growth and it becomes attractive for investment in the long term (Zilinske, 2010).

Bogun (2009) argues that the greater the inflow of FDIs by MNCs, the more profitable it is for the host country. He explains that at industrial level, FDIs generate greater productivity in the industrial branch. Thus, through their FDIs, MNCs create a cumulative system where the outstanding effects of the recent FDIs result in attracting new investments. Nevertheless, he points out that the impact of FDIs on the national economy will be significantly higher if targeted in an appropriate industrial sector with comparative advantage (increased productivity, training for the employees, advanced marketing activities, etc.).

The complexity of the relationship between MNCs, their FDIs and the economic growth prompts a series of questions. For example, Hetes et al. (2009, p. 240) focused on the following three questions: What is the role of MNCs: do FDIs act as a catalyst or not?

Have FDIs malignant effects? What factors condition the contribution of MNCs, i.e. FDIs, on the economic growth in the country? In the context of the role of MNCs or FDIs as a catalyst, the authors suggest that this approach is not unanimously accepted due to some opinions that MNCs do not provide significant contribution to the economic growth in the host country.

The role of a catalyst is best seen in the benefits of FDIs, which are not limited only to the better exploitation of the resources of the country, but also refer to the improved technology, enhanced competitiveness and enhanced performance of local companies, increased exports, i.e. to the overall acceleration of the country's economic growth. Besides technology transfer, MNCs transfer management skills, introduce innovations, promote integration in international trade (Ghosh & Wang, 2009). Through their FDIs, MNCs provide for industrial specialization of the working positions, job creation, and training for the employees, which lead to increased productivity. Moreover, FDIs are the preferred method of financing the current account deficit, especially when the deficit is excessive and unsustainable (Mateev, 2009). Another argument in favor of MNCs and their FDIs is their greater resilience during economic crises, since they are not easily withdrawn because of the size of invested capital, compared to the portfolio investments or borrowings. As an example, during the 1997-98 financial crisis, FDIs were stable, particularly short-term investments (Zilinske, 2010). On the other hand, the last economic crisis proved that some multinational companies, such as the US car producers, whose production mainly took place in the European countries, closed down their subsidiaries and factories in Europe, not paying attention to the economic and social consequences.

Also, some of the countries are skeptical with regard to FDIs from large MNCs, because they see them as a source of external influence, control and competition for the domestic companies (Abor & Harvey, 2008). Vissak and Roolaht (2005) suggest that the strong influx of FDIs leads to the existence of a parallel economy (meaning that the foreign companies are stronger, more competitive, grow faster, have higher levels of salaries, have no tendency to cooperate with domestic companies, etc.), which can accelerate inflation, lead to political, social and cultural conflicts, result in environmental degradation, in reduced autonomy of the domestic companies or lack of technological spillovers, etc. The "malignant" approach, which is very much present in the imperfect market structures, indicates that MNCs lead domestic producers to bankruptcy, to strengthening and expansion of the power of the transnational companies in the domestic market, repatriation of profits, favoring the "elite" of the labor force compared to the other employees, etc.

The only factors that transform FDIs as a source of economic growth are related to the characteristics of the host country (Hetes et al., 2009). These characteristics of the country, which enable the relationship between MNCs and the economic growth, are known as **power of absorption** characteristics. First, the economies that have more human capital and high GDP per capita have the ability to profit from the technological transfer in the home country. Second, if the host country becomes more open to international trade, it leaves room for an increase in the imports and exports (for example, FDIs lead to increased imports of parts, resources, materials and increased exports of finished products) according to Moura and Forte (2010). Third, the level of institutional development (the legal framework, the level of corruption, the quality of public policy management, protection of property rights) is a condition for transfer of technology and know-how in the subsidiaries. Fourth, the underdevelopment of financial markets restricts the home country to utilize the advantages offered by MNCs through their FDIs.

To benefit from the presence of foreign investors, the host country (i.e. local companies) needs financial support for reorganization of internal structure, purchase of equipment, development of management and employment of qualified labor force. Thus, domestic companies may resort to technology spillovers, skilled labor force mobility, to be able to deal with the growing competition.

Hetes et al. (2009) and Wang and Wong (2009) further analyze the relationship between MNCs and the economic growth from the aspect of the type of inflow of FDIs. Different forms of inflow of FDIs may have asymmetric impact on the economic growth due to their nature and fundamental characteristics. This relationship is clarified when compared with a Greenfield investment on the one hand and acquisitions and mergers on the other. Greenfield investment implies investing in a completely new business. Greenfield investment involves creation of new units and thus provides for accumulation of capital (creating and accumulating more capital in the host country), while mergers and acquisitions of existing companies not always provide for accumulation of capital (on the one hand, less money is invested and, on the other, in case of crisis, the investor may withdraw his capital to a great extent).

While acquisition implies abandonment of certain product lines or operations, firing employees, Greenfield investment has undeniable effect on the economy by creating new product lines, opening new job opportunities, attracting new customers, new tax entities etc. Yet, there is transfer of new management, new knowledge, new technology with the mergers and acquisitions (this type of FDI is a channel for transfer of technology and is better compared to Greenfield investment), which affects the productivity of domestic companies, as well. Wang and Wong (2009) argue that Greenfield investments have a positive impact on the economic growth, while the acquisitions and mergers have a positive impact on the economic growth only if the host country avails with sufficient (satisfactory) level of human capital. Muller (2007) sees Greenfield investments as an optimal model of FDIs in case there is a significant technological gap between foreign and domestic companies. Considering the level of efficiency, Greenfield investments are better ranked than the acquisitions and mergers. Nevertheless, in terms of investment costs, Greenfield investments are less preferred than mergers and acquisitions (Muller, 2007). In general, according to Zilinske (2010), Greenfield investments have far more positive effects than acquisitions and mergers, where the positive effects are small or, simply, the effects are negative, but this issue is not a subject of analysis in his work.

Moura and Forte (2010) drafted a systematization in which they include the following mechanisms or channels through which MNCs and their FDIs affect the economic growth:
1. Transfer of technology and know-how: in the same manner as Hetes et al. (2009) and Mateev (2009), Moura and Forte emphasize the positive effect on the economic growth of the increased competitiveness and productivity of domestic companies, improved product quality, which undoubtedly results in achieving higher GDP. At the same time, they point to the negative effect because of the absence of the technology spillover effect from the foreign companies to the local companies, so that the foreign investors can maintain the comparative advantage over domestic companies. Vissak and Roolaht (2005) provide their position related to the negative effect on the economic growth by indicating the dependence of the host country on technology. They argue that such dependence jeopardizes the interests of the domestic technology industry and thus increases the outflow of licensing royalties. Therefore, the negative effect that affects the balance of payments of the host country is evident.

2. Investment in advancement of workforce: Hetes et al. (2009), Abor and Harvey (2008), Ghosh and Wang (2009), Moura and Forte (2010) speak of the positive effect on the economic growth of the formal and informal training, labor spillover (movement of trained personnel from foreign to domestic companies which results in increased productivity of domestic companies), improved management methods, but also, as Vissak and Roolaht (2005), they point to the negative effect because of the decreased interest for employment of workers because of the application of modern technology, brain-drain, etc.

3. Integration into global economy: Hetes et al. (2009) and Barry (2000) suggest that there would be a positive effect on the economic growth if the country becomes more open to the global economy, (Moura & Forte, 2010), utilizing the knowledge, relationships, MNC’s brand, etc. On the other hand, Vissak and Roolaht (2005) and Mecinger (2003) pay attention to the greater influence MNCs have on the imports than on the exports, which automatically leads to a negative impact on the balance of payments of the concerned country. At the same time, they suggest that FDIs are the easiest way to spread the economic problems around the world, especially when occurring in the country of the foreign investor.

4. Increased competition in the host country: Abor and Harvey (2008) and Pessoa (2005) point to the positive effect of MNCs which, through technology and workforce spillovers, leads to increased productivity of domestic companies. The increased competition is pushing the domestic companies to invest more in research and development in order to obtain bigger market share or become suppliers of MNCs. This is also confirmed by Kornecki (2010), who adds that MNCs, through their FDIs, increase innovation, which in turn leads to greater competitiveness. Notwithstanding, Hetes et al. (2009), Vissak and Roolaht (2005) and Zilinske (2010) argue that the investments of MNCs lead to declined purchase, reduced competitiveness and lessen support of domestic companies. They further add that with the additional costs incurred by the governments for the purpose of attracting FDIs, the support to the domestic companies that need further funding is diminished. The position of the domestic companies is even more disturbed by the fact that banks prefer to lend money to the subsidiaries of MNCs rather than to domestic companies because of the lower risk perceived.

5. Development and reorganization of domestic companies: Moura and Forte (2010) argue that MNCs, or more precisely their FDIs, are an important element in the process of creating a better economic environment, and thus have a positive effect on the economic growth. First, the positive effect consists of changing the current market structure (especially if it is a monopoly, because MNCs are able to enter sectors with high entry barriers); and second, the domestic companies adopt policies, procedures and organizational structures of MNCs in case of acquisitions and mergers.

6. Difficulty in implementing economic policies in the host country: Vissak and Roolaht (2005) suggest that FDIs of MNCs may at a certain point be unstable and difficult to predict, which complicates the implementation of the economic policy in the host country, especially in small countries where each major business deal has a significant impact on the macro-economic indicators. Foreign investors may intervene in the domestic economic policy; for example, to lobby for higher import barriers for certain industries. Vissak and Roolaht (2005) provide arguments that such pressure on the domestic policy is enabled because the total value of production of major MNCs exceeds the annual GDP of some small and less developed countries.

Brada and Tomsik (2009) analyze the effect of FDIs of MNCs on the balance of payments of a particular country, i.e. the relationship between the paid dividends and reinvested profit on the one hand, and the current account deficit of the host country on the other. They present the perceived vulnerability of the host country to foreign exchange risk. In their study, they elaborate that the accounting of the dividends in the balance of payments is obvious, because the domestic currency is converted into the currency of the MNC. But when it comes to the reinvested profit, particularly when it is spent in the host country, it is treated as a current account deficit because the domestic currency is converted into a foreign currency, although such exchange does not exist in reality. The accounting of the reinvested profit aims at maintaining the duality in the accounting of the balance of payments (financial account credit and current account debit).

With regard to the reinvested profits of MNCs and their impact on the economy, Brada and Tomsik (2009) point out three factors that affect the size of the deficit, namely: (1) the volume of FDIs and their profitability, (2) the specific characteristics of the host country and the country of the foreign partner and (3) the financial life cycle of FDIs. On the other hand, the relationship between the reinvested profit and the current account deficit is in a way paradoxical - it shows that countries with a large influx of FDIs and profits reinvested in the economy of the host country have large current account deficits despite the fact that the reinvested profit can be used to purchase local inputs (land, buildings) and require no external financing.

It can be concluded that there are diverse opinions on the impact of MNCs and their FDIs on the economic growth. Main channels through which FDIs of MNCs affect the economic growth are: transfer of technology and know-how, investment in advancement of workforce, increased competition in the host country, integration into global economy, development and reorganization of domestic companies, as well as difficulty in implementing economic policies in the host country. It should be noted that each of these channels has a positive and negative effect on the economic growth, with the exception of the channel "*Difficulty in implementing economic policies in the host country*", which only has a negative effect. The positive effects are seen in the improvement of technology, increase of competitiveness and productivity, increase of exports, job creation, transfer of management skills, training for the employees, better organization of local companies, etc. The negative effects are reflected in the local companies' dependence on foreign technology, external influence and control, worsening of the balance of payments, spreading economic problems in the world, collapse and reduced support for local companies, decreased interest in employment due to the sophisticated technology, etc (Brada & Tomsik, 2009)

Motives for investment can be considered from two aspects, namely: (1) from the point of view of the interest of the investor and (2) from the point of view of the beneficiary country that receives the capital (Bevan & Estrin, 2000). A major incentive for the foreign companies to invest outside of their national borders is the desire to achieve greater profits (Moosa, 2002). Some of the other motives are related to: reduction of production costs, overcoming customs barriers, conquering new markets and transfer of technology (Moosa, 2002). On the other hand, the beneficiary country of the capital aims to develop faster its domestic economy, achieve higher growth rates, increase employment ratio and improve the living standard of its population (Bevan & Estrin, 2000).

The contribution of MNCs to the industrial sector, and particularly to the services sector, is also significant for the beneficiary country of the capital because of the global transfer of technology and knowledge. It "*can bring technological hardware (equipment, machinery, industrial processes) and technological software (for example, know-how, marketing, technical knowledge, etc.)*" (Moosa, 2002, p. 17).

To sum up, MNCs contribute to the economic development of the countries around the world. The impact of MNCs for the countries can be divided in two segments: (1) impact of MNCs for the host country and (2) impact of MNCs for the home country. The key types of impact of MNCs for the host country include (Moosa, 2002):

- MNCs, through direct investments, have a positive impact on the balance of payments in the country where they invest, which is recorded as a capital inflow in the country;
- MNCs enable transfer of cutting-edge technology;
- MNCs enable transfer of technological knowledge;
- MNCs enable transfer of a new organizational technology, office technology;
- MNCs have a positive impact on the improvement of the competitiveness of the local economy.

The impact of MNCs for the home country includes (Moosa, 2002):

- MNCs provide the opportunity to work at home and abroad;
- The competition in the foreign markets results in managerial expertise;
- Provision of raw materials at a lower cost from a constant source from abroad;
- Revenues generated from operations outside the home country of MNCs.

1.3 Definition of FDIs

FDIs are the fastest growing form of international movement of capital. The dynamics of growth of FDIs is far greater than the dynamics of growth of world export and import (Moosa, 2002). Nevertheless, FDIs are neither a new, nor an unknown category, but there is no universally accepted definition of what FDIs are. FDIs are a kind of globalized strategy of the companies through which they ensure physical presence in other countries, in specific foreign or global markets (Popovski, 2010).

FDIs are 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... Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise (IMF 2011, p. 100-101).

The IMF and the OECD define FDIs as "*a category of international investment that reflects the objective of a resident entity in one economy (foreign direct investor) to obtain a lasting interest in a company resident in another economy*" (Maitena, 2003, p. 2). The term "lasting interest" refers to companies where foreign investors own at least 10% of the ordinary shares or voting power and implies existence of a significant degree of influence in the management of the company from the other country. Direct investment includes all transactions between the investor and the company. The IMF uses this figure of 10% in order to distinguish between *portfolio investments* and FDIs. If the investor buys more than 10% of the shares of the company, it should be registered as a direct investment, and if the non-resident has less than 10% of the shares, it should be registered as a portfolio investment.

According to UNCTAD and its World Investment Report of the United Nations (1999, p. 32), FDIs are defined as "*an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (direct foreign investor) in an enterprise resident in the economy other than that of the foreign direct investor*". The term long-term relationship in this definition indicates the difference between FDIs and portfolio investments, which means that FDIs have long-term character, while portfolio investments, by nature, have short-term character and include sales of securities. However, the terms "control" and "interest" suggest that the investor in portfolio investments does not require control or lasting interest, which is contrary to the interests in direct investments.

Direct investors, as defined by the IMF and accepted by the OECD (2011, p. 101), may be individuals, incorporated, associated private or public enterprises, governments, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises that have a direct investments in the enterprise which operates in an economy other than the economy of residence of the foreign direct investor.

According to the World Bank (2004, p. 329), FDIs are an investment net inflow aimed at achieving long-term interest and management in a company that collaborates with a country other than the country of origin of the investor. From the above definitions, the following conclusions on FDIs can be drawn:

- An investment to be considered FDI needs to be an investment from one country to another country which is other than the country of origin of the investor.
- The investor should own more than 10% of the shares in the company in the foreign country; otherwise it would be considered a portfolio investment.
- FDIs are long-term investments.

FDIs are among the most important tools for mediation of economic development which, in every national economy, encourage production, import of know-how, employment growth, infrastructure development, poverty reduction, etc. The benefits yielded with the inflow of FDIs prompt a sharp competitiveness on the global market of free capital, aimed at attracting as more extensive and diverse FDIs as possible. FDIs are generally implemented through the activities of the transnational corporations, which open their own manufacturing companies - subsidiaries in foreign countries by procuring the controlling package of shares in an existing company or by establishing a completely new enterprise (Blomstrom et al., 2000). FDIs link economies in the world, communicate new methods and achievements in the production of goods and services and share experiences among the economies that are investing and the economies that are receiving the investment.

Most important of all factors affecting the level of FDIs is probably the **attractiveness of the region (**Bevan & Estrin, 2000). Confirmation of this is the experience of the Baltic countries, the Eastern European countries and the Southeast Asia. In a short period of time, these regions have seen record amounts of FDIs in their economies. Closely related to this factor is **the country's location, security** and **stability (**Agarwal et al., 1991). The best illustration thereof are the Western Balkan countries which, in the last 15 years, have gone through a turbulent period of transition, inter-ethnic conflicts and disintegration of the former state.

Below the major economic factors are listed (Amati, 2004):

- natural resources of the country;
- local market size;
- technical and technological level of domestic industry;
- skilled workforce;
- reformed legislation and favorable business environment;
- development level of the financial and banking systems;
- low taxes and easy transfer of profit to the home country;
- simple and quick lease of property/land, and
- friendly attitude towards foreign investors.

To improve the attractiveness for investment, countries compete with each other to make the business environment more favorable and to reform the legislation. In doing this, most often they resort to reduction of existing tax rates, by offering incredibly high financial packages to companies which plan a significant investment. These measures are boosted by tax exemptions for a number of years.

1.3.1 Types of FDIs

FDIs represent a globalized strategy for performance of MNCs for acquiring local technical expertise, benefits from low costs and/or local government investment loans (Hill, 2008). A foreign company may or may not become owner of the foreign assets invested by the investor. A Macedonian company exporting products abroad may be the owner of the assets abroad by establishing its own facilities abroad through which it sales the products, but also it does not have to own them, since the sale can be facilitated by mediators. However, when it comes to FDIs, the company needs to have a minimum of 10% of the shares of the foreign company or to have full ownership over it.

FDIs are divided according to their orientation as: **inward** – oriented towards the state, and **outward** - oriented outside of the state. Outward oriented FDIs are when the domestic company invests abroad with the aim of conquering new markets or expanding production. Inward oriented FDIs are when the domestic market/company receives foreign capital (Hill, 2008).

FDIs appear in two basic forms (Dunning, 1993):

- Greenfield investments, which implies initiation of a completely new operation or business in a foreign country.

- Brownfield investments, which implies acquisition or merging with existing company in a foreign country. Acquisition very often may refer to a small ownership segment, a large ownership segment or full ownership.

Greenfield investment is an investment in manufacturing, offices or other physical structures associated with the company or a group of physical structures where no previous facilities existed (Popovski, 2010). Greenfield investment is a form of FDI where the parent company is investing in a foreign country, in the construction of new buildings starting from the scratch. Often, governments of developing countries offer various tax breaks, subsidies and other incentives to attract new Greenfield investments. Closely related to Greenfield investment is Brownfield investment - a place used in the past for business purposes which is now expanded for the purpose of increasing the profits (Dunning, 1993). International mergers and acquisitions are a kind of a FDI that plays an important role in fostering globalization.

Acquisition is a form of a FDI in which a foreign company buys a company in the home country. Acquisition is when the company is taken over fully or partially. Acquisitions open new opportunities for products, processes and markets for a company, which contributes to the improvement of the company's ability to achieve competitive advantage. Through it, the company may obtain well-known product, depending on the company that is taken over. The most famous example of acquisition is when Google took over Double Click in 2008 (Popovski, 2010).

Mergers occur when two or more companies from different countries converge. A prominent example of a merger is the merger between the US carriers, Continental Airlines and United Airlines, in 2010 (Popovski, 2010).

"Mergers and acquisitions (M&As) represent a special type of implementation of competitive strategy within the value chain and system, through integration (by acquisition or merging) of businesses that implement particular segments of certain activities...or through diversification of businesses in the search for synergistic effects" (Popovski, 2010, p. 137).

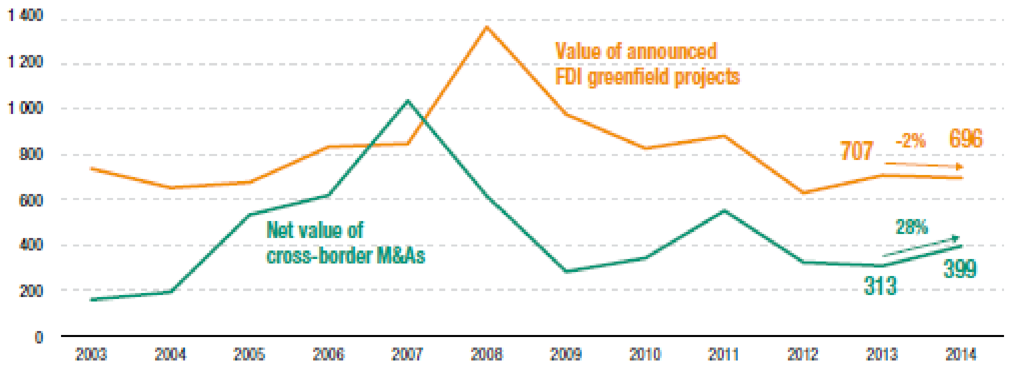
According to Popovski (2010), mergers and acquisition have several advantages:

- mergers and acquisitions can be implemented faster than Greenfield investment. This advantage is important for the modern business world because new markets emerge very quickly.
- foreign companies opt for acquisitions because domestic companies have valuable strategic assets and advantages, such as loyalty brand, closeness with customers, trademarks, distribution system, production system and other similar advantages.
- companies establish acquisitions because they believe that the efficiency of acquisitions can increase with the transfer of capital, technology and management skills.

According to UNCTAD (2015), in 2014, cross-border mergers and acquisitions began to rise; the value increased by 28% in the course of 2013, reaching nearly 400 billion US Dollars. In developed economies, the value of mergers and acquisitions increased by 16% and in developing countries and transition economies by 66%. The attractiveness of Greenfield investments was lower. After the growth in 2013, the total value of new Greenfield investments declined for 2% in 2014. In developed economies and in developing countries, the announced new Greenfield investments reached a negative rate of -1%, while in transition economies, they reached a negative rate of -13%.

As can be seen from Figure 1, gross value of cross-border mergers and acquisitions in 2014 reached 900 billion US Dollars, i.e. it increased by 34% compared to 2013. This is a significant increase compared to the 2010-2014 average, which reached the amount of 775 billion US Dollars. Mergers and acquisitions were mainly concentrated in manufacturing activity, reaching 77% of their total value, followed by services, up to 36% of the total value of global takeovers (UNCTAD, 2015).

Figure 1. Value of Cross-Border Mergers and Acquisitions and
Announced Greenfield Projects, 2003-2014



Source: UNCTAD, *World Investment Report*, 2015, p. 11

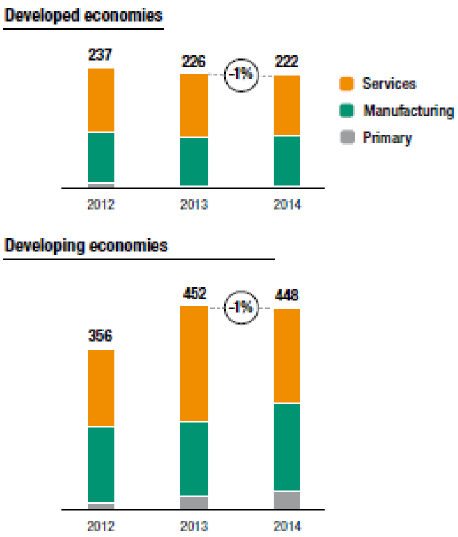
A key factor for increasing cross-border mergers and acquisitions are considered the so-called "big business deals" of the largest MNCs which have shown interest to invest their money in cross-border operations. The value of those business deals was nearly 3.4 billion US Dollars in 2014 and 2.9 billion US Dollars in 2013. Of the total 223 major cross-border mergers and acquisitions, 173 were concentrated in developed economies, where they reached the value of 598 billion US Dollars. Most attractive for acquisition were the US companies, with a share of nearly 35% of the total cross-border mergers and acquisitions in the world, primarily in the pharmaceutical industry and telecommunications. An example of acquisition was recorded in 2014, when the Italian car manufacturer Fiat bought Chrysler for 3.65 billion US Dollars. Three of the five largest acquisitions in Europe were in the telecommunications. The biggest acquisition in Europe was worth 23 billion US

Dollars, and it was the acquisition of SFR S.A France by Altice S.A Luxembourg (UNCTAD, 2015).

New investments, also known as Greenfield investments, declined in 2014 at the global level. In the developing countries, Greenfield projects increased in 2013 and remained high in 2014. In 2012, the amount of Greenfield investments in the developing economies accounted for 356 billion US Dollars; the amount of Greenfield investments in 2013 increased by a significant amount, i.e. 96 billion US Dollars and reached the amount of 452 billion US Dollars. In 2014, a decline in Greenfield investments was recorded in the developing economies of -1%, when they reached the value of 448 billion US Dollars (UNCTAD, 2015).
The trend of Greenfield investment movement in developed economies remained stable. In 2012, the value of the announced Greenfield investments in developed economies was 237 billion US Dollars, while in 2013 it fell by 11 billion US Dollars and reached the value of 226 billion US Dollars. In 2014, there was again a decline in Greenfield investments in developed economies of -1% and reached the value of 222 billion US Dollars (UNCTAD, 2015).

As can be seen from Figure 2, the trend of Greenfield investment movement in developing economies was growing, while in developed economies, Greenfield investments marked a downward trend. The Greenfield projects in developed economies in the last 10 years marked a declining trend of -1% (UNCTAD, 2015).

Figure 2. Value of Announced Greenfield Investments by Sectors
and Groups of Economy, 2012-2014



Source: UNCTAD, *World Investment Report*, 2015, p. 12

Some consider that about half of international mergers or acquisitions do not meet the purpose for which they are established due to the different corporate culture, inadequate preparation, too high price paid, etc.

FDIs can also be classified as (Alfaro & Charlton, 2007): (1) **horizontal** FDIs and (2) **vertical** FDIs. Horizontal *FDIs* are investments by foreign investors in the same industrial field of operation of the company as in the home country (Alfaro & Charlton, 2007). Vertical *FDIs* are investments by foreign investors in the industrial fields that supply with inputs the domestic operations of the company, or investments in other industrial fields in a foreign country which sells products for the domestic operations of the company (Alfaro & Charlton, 2007).

1.4 FDIs and Their Importance

The continuing process of globalization has caused changes in the attitude towards FDIs and their importance, as well as the role in the country's development. Foreign investors are no longer looked at with suspicion, but rather conditions are being created for attracting FDIs, which, in the broadest sense, refer to all investments by foreign legal entities and individuals in the economic activities of the country. However, the kind of foreign direct investment and to what extent will be invested in a particular country depends on a number of factors like: resources, market size, technical and technological level of industry, wage rates, labor skills, political stability and property rights, legislation, low taxes etc. (Amati, 2004).

The rise of globalization and liberalization has increased the need for more productive activities, i.e. the need for production of goods and services that will be able to withstand the competition and survive in the market. Furthermore, since the nature of global competition has also changed from companies to networks, this has resulted also in the nature of FDIs, which are becoming increasingly connected to the so-called global value chains (Damijan & Rojec, 2015). For most countries, FDIs are an important element to activate their own potential and apply cutting-edge technology, with the main carriers of FDIs being MNCs.

MNCs dispose of the latest achievements of science and technology, modern methods of organization of production, management, marketing, financing. They possess huge capital and have more economic power than many countries. MNCs provide a large contribution to the economic development of the world economy, but also of the countries in which they invest. Specific benefits from direct investments by MNCs are as follows (Bear, 1986):

- MNCs enable transfer of advanced technology, and thereby develop new industrial sectors in a relatively short period of time.

- In addition to technical and technological know-how, MNCs adopt new organizational and administrative technology.
- Direct investments from abroad allow creation of new jobs and reduce unemployment. Moreover, MNCs contribute to improving the quality of workforce through training of direct producers and administrative workers.
- MNCs have indirect beneficial impact on technology and organization of production of local companies.
- In the period immediately after a direct investment of a MNC with extensive substitution of imports, the deficit in the balance of payments is reduced. In many countries, traditional exporters of one or several products, MNCs, with their new production programs, contribute to diversification of the export program.

For these reasons, the question of whether to open the doors of the national economy to foreign investors is no longer asked, and has been replaced by the questions of what kind of measures, strategies and activities should be taken to attract MNCs.

Countries willing to attract MNCs to invest in their economies should have a properly defined and drafted macroeconomic policy for attracting FDIs. According to Dunning (1993, p. 164), "*the net benefits of foreign direct investments in the host countries depend on the type of investment, the conditions under which the investment was agreed, the existing comparative advantages of the host country and its economic policy*".

Although there is no consensus yet for the impact direction and ratio of FDIs and the economic growth, the extensive empirical literature finds that FDIs are economic development catalysts and positively influence the economic growth and increase the total amount of available capital (Iamsiraroj, 2015).

When the issues of economic development, growth and the effects of FDIs are concerned, there are indeed opposing stances in theory and in literature from the endogenous and neoclassical models of economic growth (Iamsiraroj, 2015). With regard to the neoclassical economic growth model, technological advancement and labor force development can only be achieved by a lasting growth. In this regard, technological advancement and labor force development are exogenous. Hence, in their empirical work, de Mello (1997) and Solow (1957) use this model to frame the effects of FDIs therein, as they consider that economic development can be encouraged by constant and positive technological advancement (Iamsiraroj, 2015). If, for example, returns to capital inputs are decreased, according to the neoclassical theory of economic growth, the economies may decide to converge to the steady growth rate. Notwithstanding, the growth rate remains unaffected by FDIs only in the long-run, which is not the case with the short-run effects of the FDIs. Many scholars believe that the neoclassical economic growth model highlights the role and effects of technological change, and therefore consider it as a more suitable model (Iamsiraroj, 2015).

Lucas (1988), Rebelo (1991) and Romer (1986) worked on the development of the endogenous model of economic growth, which is based on human capital accumulation and research and development (R&D). It also stresses the effects, both positive and negative, of such capital. FDIs stimulate improvement of production systems in host countries by integrating new inputs and technology. If there is increased productivity and positive results and benefits, it means that FDIs encourage endogenous economic growth (Iamsiraroj, 2015).

Economic growth may be endorsed by the inflows of FDIs, which are seen as a crucial source of human capital, technology and expertise dissemination. The endogenous model of economic growth, as opposed to the neoclassical model of economic growth, better elaborates the effects that the inflows of FDIs might have on the growth rate and is therefore often used in practice to explicate the relationship between FDIs and the growth rate (Dunning, 2000).

However, some other approaches are being used in this context as alternative approaches, including the neoclassical trade theory approach and the industrial organization approach. The neoclassical trade theory approach analyzes the direct effects of FDIs on factor rewards, employment and capital flows. On the other hand, the industrial organization approach is focused on the possible results or effects of the inflows of FDIs. According to this approach, FDIs are seen as an instrument that boosts economic growth of the host country since it may enhance the domestic capital formation if it is deficient in the recipient economy. Another contribution of FDIs to the increase of the economic growth is seen in the swift accumulation of domestic human capital by sharing expertise and know-how (Hill, 2008).

There are scholars who believe that economic growth is not affected by FDIs or that growth is conditioned by other factors as well. In this regard, Benhabib and Spiegel (1994) and Nelson and Phelps (1966) speak of the necessity of appropriate accumulation of human capital, as absorptive capability (Iamsiraroj, 2015). Akinlo (2004) argues that FDIs may have positive effect on economic growth only if there is sufficient absorptive capability in the host economy to absorb the advanced technologies (Iamsiraroj, 2015). According to Balasubramanyamet al. (1996), FDIs may have even greater positive effect on economic growth in open trade environment with favorable investment opportunities and macroeconomic stability (Iamsiraroj, 2015).

There are, however, authors who outline negative correlation between FDIs and economic growth. Namely, they consider that FDIs may negatively affect the growth rate because of the mechanisms of dependence and decapitalization. As Amin (1974) and Frank (1979) believe, the dependency theory developers, the growth of economy in developing countries cannot be stimulated in the long-run by foreign capital flows or FDIs (Iamsiraroj, 2015). In their empirical work, Alschuler (1976) and Bornschier et al. (1978) came to a conclusion that FDIs, in the long-run, adversely influence economic growth. For example, FDIs decrease economic growth and thus increase inequality (Iamsiraroj, 2015). Moreover, the negative influence of FDIs on economic growth rate is explained by the so-called "decapitalization", if domestic capital or assets are transferred via FDIs to a country which offers better conditions for production and earning. Bornschier (1980, p. 132) defines decapitalization as "*reduction in funds available for investment in the host country*" (Iamsiraroj, 2015). He explains decapitalization by using examples of least developed countries (LDCs). According to him, the least developed countries make all possible efforts to be attractive for foreign investors so that they, by investing in their economies, bring along the advanced technology they use in the production processes. Decapitalization primarily concerns industrial sectors as these sectors may engage vast part of available investment capital. As a result, the other sectors in the host country are less concerned. In Bornschier's opinion, FDIs stimulate better investment and consumption rates in the short-run rather than in the long-run.

The use of foreign investment allows recovery of domestic savings, without increasing the level of indebtedness. Through FDIs, the country provides the necessary capital, advanced technology, has access to international markets to export products, increases competition between companies, increases productivity, creates modern management model which does not remain applied only in the foreign companies but can be transferred to the domestic companies. FDIs may initiate emergence of new economic activities and encourage economic development (Agarwal, Gubitz & Nunnenkamp, 1991).

The growing importance of FDIs during the 1970s contributed to the increase of interest in the causes and effects of FDIs in literature and more intensive development of the theories of foreign direct investments. In literature, there are a number of theories that attempt to answer the important questions: **why** the company invests abroad, **why** the company opts for direct investments rather than export, **how** it makes the choice of country where to invest, **how** the company manages to compete with local companies, etc? In addition, any attempt to theorize FDIs crucially depends on the type of questions it wants to answer. The authors of such theories may differ in the choice of variables they analyze, namely whether they observe micro factors, macro factors or strategic factors (Hill, 2008).

We can divide FDI theories into (Agarwal, Gubitz & Nunnenkamp, 1991):

- **Microeconomic theories** (or approaches within the general theory of industrial organization), which correspond more to a practically- and business-oriented international **business** perspective.
- **Macroeconomic theories** (also known as theories of cost of capital), which are closer to a more traditional international **economic** perspective.

Microeconomic theories: have a longer history of existence in literature and study the imperfections of markets. They are largely focused on the intention of MNCs to expand their power. Namely, these theories at the level of a company, i.e. at micro level, enable consideration and understanding of the underlying reasons for making decisions about foreign direct investments. The company is responsible for making decisions on every foreign direct investment and "*applies some of the following approaches: theories of different rates of return on invested capital, portfolio theories and theories of product life cycle"* (Moosa, 2002, p. 22).

Macroeconomic theories: are of a more recent date in the theoretical literature on foreign direct investments. Namely, the academic interest was initially aimed at explaining the motives of the companies to expand their operations abroad, but with the growth of FDIs and the first studies of their effects on economic growth, employment, balance of payments etc., the macroeconomic analyses of FDIs appeared, in which not only the macroeconomic implications in the host country of the FDI are explored, but also the effects in the respective country of origin of the foreign investor (Hill, 2008).

Moosa (2002, p. 23) classifies the theories of foreign direct investments as follows: theories assuming perfect markets, theories assuming imperfect markets and other theories of foreign direct investments. I describe them next.

1.4.1 Theories assuming perfect markets

The theories assuming perfect markets include: theory of differential rates of return, theory of portfolio diversification and theory of market size (Moosa, 2002).

Theory of differential rates of return: is one of the first attempts to explain the movements of FDIs and the basic assumption of this theory is in the differential interest rates between the countries, appearing as the cause of international capital movement. Capital, according to this theory, moves from countries with a larger stock of capital, where the interest rate is lower to countries with modest capital funds in which the interest rate is higher, since every investor seeks to maximize his profits by investing where interest rates are higher (Moosa, 2002). Obviously, this theory does not involve risks, uncertainties or barriers in the capital movement. Hence, the rate of return is the only variable in the investment decisions in this theory. This theory is inspired by the trend of significant outflows from the United States to Europe in the period 1960-1980, therefore empirical evidence cannot be provided that would explain the expansion of the two-way FDIs among the countries with similar levels of economic development (Moosa, 2002).

Theory of portfolio diversification: is complementary to the theory of differential rates of return, because it includes the risks in the investment decisions. When the risk is presented, and the assumption of risk neutrality is neutralized, then it becomes another variable on which investment decisions depend. If this proposition is accepted, then the theory of differential rates of return becomes inadequate, in which case the theory of portfolio diversification is preferable to explain FDIs. Hence, the choice between different projects is motivated not only by the expected rate of return but also by the risk. The idea to reduce risk via diversification, which is relevant for portfolio investment, is also very often used here. Indeed, in this case, the movement of capital will be pressured by the desire to minimize or reduce the risk and this is achieved through diversification (Moosa, 2002). According to this theory, it is no longer easy to predict the direction/movement of capital, because the flows may take two or more directions, or even all possible directions, primarily because of the differentials in the risk preference.

This theory, as well as the theory of differential rates of return, does not explain why MNCs are major contributors to FDIs and why they choose FDI rather than portfolio investment. An important theoretical disadvantage of these two theories is that they do not provide an explanation on the control, because the explanation of FDIs is closely linked to the explanation of the control. Hence, it is not possible to explain FDI with these theories (Hill, 2008).

According to the **theory of market size,** it is exactly the market size that determines the volume of FDIs in the host country, which can be measured through the sales of MNCs in that country or through the host country's GDP (Moosa, 2002, p. 27). This particularly applies to FDIs aimed at substituting the imports. This theory starts from the assumption that the companies are increasing their investments as a result of their sales in the host country, which makes the country more attractive to MNCs, if it achieves market size at the level of exploitation of economies of scale, because the required market size allows for specialization of the factors of production and minimizing the costs. One possibility to test the theory of market size is to determine the relationship between the FDI in the host country and the income of that country. The empirical studies that have applied this methodology to test the theory show that the high levels of sales and income in the host country are positively correlated with FDIs. There are plenty of economists who share the opinion that the market size is a determinant of FDI, but it must be borne in mind that some researches show that the size of the market is not the most important determinant (Hill, 2008).

1.4.2 Theories assuming imperfect markets

The theories assuming imperfect markets include: theory of industrial organization, theory of product life cycle, location theory, theory of oligopolistic reaction, eclectic theory and theory of internalization.

Theory of industrial organization: is based on the specific knowledge of the company and its role in the creation of the internal market and acquisition of a monopoly advantage. Hymer (1981) was the first economist who noted that the main motive of MNCs to transfer their production abroad is precisely the existence of imperfect competition in the domestic market. He concluded that the movement of direct investments is related with the international operations of the companies and that their goal is to maintain control over production that allows them to beat the competitors or provide benefits due to the advantage resulting from the educated labor force, cheap raw materials, access to capital markets or technology. The theory of industrial organization was first developed by Hymer (1960, 1981), and was later expanded by Kindleberger (1969), Caves (1974) and Dunning (1974) (Moosa, 2002).

According to Nestorovski (1999), the monopolistic advantages of companies refer to two main categories: superior knowledge disposal and benefits from economy of scale. Superior knowledge includes all types of invisible assets contained in knowledge and skills that enable competitive advantages: technology, know-how, management, organizational skills, marketing skills, etc. Monopolistic positions enable control over the usage of this type of assets which is transferred into products with differential advantages. He also suggests that the economy of scale can help in the explanation of FDIs. Namely, given the existence of competition in the home country, or oligopolistic situation, when economy of scale cannot be achieved in the home country, the company strives to achieve it by investing abroad. The economy of scale, by achieving specialization of the production of more products in several countries, provides the companies with comparative advantages for investing in other countries. The theory of industrial organization explains why the companies invest in foreign countries, but it does not explain why they locate their investment in a particular country (Nestorovski, 1999).

Theory of product life cycle: was developed by Vernon (1979) who gave an explanation for the expansion of the US multinational corporations after the World War II. Furthermore, this theory is often applied in explaining FDIs (Hill, 2008). According to Vernon, the companies which have experienced success with a particular product from their range of products and made a breakthrough with it in their domestic market will certainly dare for FDIs so that they can produce and sale that product in the foreign markets (Hill, 2008, p. 223). He added that it mainly refers to the companies which are established and operate in developed countries and have resources, skills and knowledge to generate new products. He noted that the availability of resources, skills and knowledge varies in all counties (UNCTAD, 1993). According to this theory, innovation and production in oligopoly pass through three stages:

- **Introduction** or **initialization stage (stage of a new product)**: when there is considerable uncertainty about the fate of the product, production takes place in the home country close to the domestic buyers, mainly due to the efficient coordination between research and development and manufacturing units, and the demand is of domestic consumers.
- **Growth stage (stage of a mature product)**: there is a great demand of the product on the domestic market and the product is exported to developed countries, i.e. as soon as the domestic market is saturated, MNCs decide to export to foreign markets, and later when the benefits of the economy of scale and specialization of the production process are stronger, the company decides to invest abroad, mainly in developed countries where the level of income and purchasing power is higher.

- **Decline stage (stage of a standardized product)**: is a stage of complete standardization of the product and the production process is no longer exclusive to the innovation company which starts to face competitive pressure, i.e. appearance of close substitutes to its product. At this stage, the innovation company invests in developing countries, seeking advantages in terms of lower costs.

Mossa (2002) stressed that the original theory of Vernon was developed in the 1960s, when the United States were the leader in the production of innovative products and is based on the experiences of the United States and provides a useful explanation of the interaction between production, export and FDIs in the period 1950 - 1960.

Location theory: helps in explaining the direction of FDIs. According to this theory, FDIs result from the international immobility of certain factors of production, such as labor force and natural resources. Key determinants of FDIs according to this theory are the availability and price of production factors, the possibility to avoid trade (usually customs) barriers etc. Commonly pointed factors for FDIs are lower labor costs, lower taxes, better infrastructure, political and macroeconomic stability of the country, etc (Moosa, 2002).

Theory of oligopolistic reaction: was developed by Knickerbocker, who stressed the relationship between FDIs and the rivalry in the oligopolistic industry (Nestorovski, 1999). This theory is based on the idea that, in an oligopolistic environment, FDIs of a dominant company in a particular industry will cause a similar reaction by the leading companies in the same industry to keep their position in the market. The structure of oligopolistic competition is such that the movement of a separate company towards establishing production facilities abroad in order to achieve competitive advantage can lead to disruption of the oligopolistic equilibrium. "*Equilibrium in the oligopolistic market exists only when there is stability in the market share compared to the rival companies*" (Nestorovski, 1999, p. 79). Although this theory helps explain FDIs in oligopolistic situation, it does not identify the factors that cause initial investment by the company.

Eclectic theory or O-L-I paradigm: was developed by Dunning (1981, 1988, 1993) by integrating the theory of industrial organization, the location theory and the theory of internalization. This paradigm, which has not lost its relevance and topicality even today (e.g. Dunning, 2006; Eden & Eden, 2010), answers three critical issues related to the FDIs: which company will invest abroad, where it will invest and why the company will opt for FDIs rather than for export. In addition, this paradigm enables analysis of the incoming and outgoing FDIs, various forms of non-equity arrangements, intra-industrial investments, change of FDI determinants, flows and their effects over the time.

The main hypothesis on which the eclectic paradigm is based is that the company should meet/balance three conditions to be able to get involved in foreign (investment) activities (Dunning, 1993):

- ownership advantages (**O**),

- location advantages (**L**), and
- internalization advantages (**I**).

Ownership advantages or company-specific advantages are among the key determinants of FDIs, and, to the largest extent, they are ownership rights to intangible assets, patented technology, products, innovation, management, marketing, finance, know-how, etc. MNCs may decide to use their own advantages resulting from the economy of scale, managerial and marketing experience, advanced technology, differentiation of products and get involved in international activities that will enable use of such advantages in a global context (Dunning, 1993).

Internalization advantages refer to the expansion of the company by using its ownership advantages instead of selling the rights to other companies. The benefits of internalization are lower costs compared to the costs for licensing or export. Internalization is motivated by the existence of an imperfect market and the need for cost savings (Dunning, 1993).

Location advantages are also a necessary condition for FDIs. By interpreting the factors of location, the eclectic theory clarifies the dilemma related to the location of production, if the company decides to deal with production, whether it will be on the domestic market, whether it will export the products to foreign markets or it will be abroad as a FDI. Hence, location factors are: natural resources, infrastructure, differences in the quality and productivity of inputs in various locations, transport costs, different forms of state interventions, through customs or various forms of support (Dunning, 1993).

Internalization theory: developed by Buckley and Casson (1976), Rugman (1981), and Hennart (1982), is a firm-level theory explaining why MNEs will exert proprietary control (ownership) over an intangible, knowledge-based, firm-specific advantage (FSA) (Rugman, 2009). This theory, as one of the theories of FDIs, answers the question why FDIs are a more efficient way of using the specific advantages of investors compared to exports and licensing. A number of authors dealt with this theory (e.g. Coase, 1973; Hymer, 1968; Casson, 1976) and the common denominator for internalization was: the company replaces the external market in order to realize some of the transactions more efficiently or cost-effectively or to realize the transactions for which there is no regular market. Dealing with the theory of costs of FDIs and TNCs, Caves (1982) found that the high transaction costs are the main reason for internalization. Horizontal TNCs implement internalization through the so-called intangible assets (brand, authorship), while vertical TNCs implement internalization on the market through semi-products.

According to Rugman (2009), the knowledge advantage arises from a transaction cost economics explanation, whereby the public good nature of knowledge (an externality) is remedied through the hierarchy of a firm overcoming this situation of market failure. The other types of FSAs, such as brand advantage, skills in management, and organizational capabilities, are also efficiency-based and are compatible with the resource-based view (RBV) and the value creation aspects of Penrose (Rugman & Verbeke, 2002). Internalization theory applies transaction cost economics and the RBV to explain the efficiency aspects of MNEs (Rugman, 2009, p. 3).

According to Caves (1982), internalization advantages are prominent in circumstances where transaction costs are high, the risk of inappropriate application of specific knowledge of the company is high, there are significant information asymmetries between potential buyers and sellers and so on. The theories of internalization are particularly relevant for industries based on exploitation of resources, as well as for technology-intensive industries (Caves, 1982).

1.4.3 Motives for internationalization and FDIs

After the period of the 18th century Industrial revolution, internationalization of production was increasingly talked about in economy. This implied that part of production and sales would take place between different countries. The motives for internationalization of the businesses changed over the time. In the 1950s, US companies were involved in international businesses for the purpose of: protection of domestic market, acquisition of technology, geographic diversification, protection of foreign markets, etc. With the disappearance of trade barriers, the US companies became increasingly interested in internationalization. Many of the companies, which had a competitive advantage over the others, appeared on the foreign markets in order to find cheap labor force (Bevan & Estrin, 2000).

The most common motives for operations abroad are (Moosa, 2002), as follows:

- Motives for expanding **sales/revenues**: the attractiveness of the product for consumers and their financial ability to purchase dictate the sales of the company's products. By exporting abroad, the company expands the market for placement of its products. Due to the entry barriers and the high transport costs, managers often decide to produce abroad. Managers make a decision to expand their businesses abroad because they believe that their product will be accepted in the foreign markets and the company will make profit.
- Motives for reducing **costs**: the primary goal of every company is to decrease costs. The cost of production directly affects the selling price of the product and thus indirectly affects the sales and the profit gained. If the company makes high costs of production, it will set the selling price of the product higher than the competitors, and will thus lose its competitive market position. Reduction of costs through international expansion is possible if the company is targeting low-cost production inputs, markets where the product is sold at a higher price, location for the company close to the markets to reduce the transport costs.
- Motives for reducing **risk**: most economists believe that international business is more risky compared to domestic business because the international environment is more

complex than the domestic. Yet, international business, to some extent, reduces the risk of the companies through: preventing their competitors to gain advantage of working in a foreign market, balancing the sales and profits by increasing the dependence on suppliers and customers.

Zitta and Powers (2003) elaborated a thesis according to which the market size, the nature of the market, the political situation in the country, the desire for activity in the global economy, the need for growth, the levels of salaries, the personnel policies, the capital market and technology all affect the motives for operations in foreign markets.

Profit and cheap workforce are main reasons for undertaking business operations globally by the companies at micro level, particularly in terms of manufacturing. Companies resort to internalization, i.e. to establishing branches or affiliates in foreign countries in order to be more profitable. Yet, the interests of one MNC, active in a foreign market, are very often correlated with its nature. In a study, Bitzenis (2004) took Bulgaria as an example and found that foreign investors were primarily interested in conquering the market therein (Kurteshi-Kastrati, 2013). Shatz and Venables (2000), in their study, explain that the local market and the lower-cost inputs are the key driving forces for internationalization of companies. Namely, they explain that there are **horizontal** or market seeking and **vertical** or product cost minimizing reasons why the companies decide to become globally active corporations (Kurteshi-Kastrati, 2013).

Dunning (1980) suggest that there are four types of motives for operations in foreign markets:

- **Resource-seeking motives**: companies applying this motive when investing in a particular country base the choice of the country on the principle of inexpensive inputs. Resource-seeking, as a motive, relates to the accessibility of natural resources and infrastructure, inexpensive, under-skilled and low-qualified workforce. For example, most important determinant for FDIs in a host country used to be the presence of natural resources and infrastructure (Dunning, 1993). Labor-seeking, as a motive, is typical for manufacturing and service-oriented MNCs, interested in reducing their workforce-related costs by establishing subsidiaries or acquiring other companies in different foreign countries. Very often, the countries, to be more attractive for foreign investors, decide to open free economic zones (Dunning, 1993).
- **Market-seeking motives**: these companies operate in a foreign country in order to gain a new market, increase their sales or serve the new market. The market-seeking motive is closely related to the market size, market development and per capita income. New markets are perceived by the companies as a possibility for competitiveness and progress, as well as an opportunity for becoming economies of scale. According to Dunning (1993), MNCs may be forced to become involved in market-seeking and establish subsidiaries abroad if their associates, customers or suppliers, opt for production in a foreign country and stop their business operations.

- **Efficiency-seeking motives**: the goal of the company is to rationalize production, marketing and distribution. The efficiency-seeking motive is aimed at utilizing numerous factors in rationalizing the structure of established resource-based or market-seeking investment so that the company investing abroad is able to make profit from the common governance of geographically dispersed activities. Here, according to Dunning (1993), it is important for the companies to be able to serve as many as possible markets from as few as possible production locations.
- **Strategic asset-seeking motives**: the goal of the company is to maintain its competitive advantage or to expand its operations abroad (Nowak, Gorynia & Wolnial, 2007).

However, it is more than evident that the vast majority of big MNCs strive towards achieving multiple objectives by undertaking combined FDIs. Nevertheless, it is rather difficult to identify the factors that determine FDIs since numerous distinctive features of every country, sector and company have to be taken into consideration. Valerija Botrić and Lorena Škuflić (2005), in their research, divide the determining factors in three categories: economic policy of the host country, economic performance and attractiveness of the national economy (Kurteshi-Kastrati, 2013).

FDIs depend on the size and potential growth of the national economy, on the natural resources endowments, quality of workforce, openness to international trade and access to international markets, as well as on the quality of the physical, financial and technological infrastructure.

The main motives of foreign investors through their FDIs are to obtain access to various markets at national, regional and global level, to be highly competitive, to reduce the costs for labor and production, to have better access to skilled workforce, to dispose of cheap raw materials and make use of suitable infrastructure and transportation, under the umbrella of a favorable and supportive government's policy for attracting FDIs (Hollensen, 2007).

Hence, the proactive and reactive factors explain further the motives of the companies for undertaking business operations in international markets. Proactive motivational factors are factors that stimulate strategic changes (Hollensen, 2007). These factors include profit advantages, economies of scale, unique products, technological advantage, restricted information and tax benefits. Reactive motivational factors are factors that encourage companies to timely adapt their activities to the environmental changes. These factors are prompted by overproduction, competitive pressure, decline of domestic sale, closeness to customers and ports, level of saturation of the domestic markets, etc. (Czinkota & Ronkainen, 2007).

1.5 Antecedents and Determinants of FDIs

We have seen that FDIs can have a major impact on the economic growth in one country, and therefore the determinants that influence the flows of FDIs in the countries are of great importance for the host country and for the foreign investor.

According to Mateev (2009), FDIs are actively involved in one of the most important aspects of the transition process - restructuring of companies. Consequently, he suggests that attracting FDIs is a priority in the agenda of all governments in transition countries and that research on the determinants of FDIs is crucial. Abor and Harvey (2008) supplement this view and recommend that FDIs should be considered as an integral part of the economic policy of a country aimed at encouraging economic growth.

According to Mateev (2009), the determinants of FDIs in transition countries are divided into two groups, namely:

- **Traditional determinants**, such as: market size, distance to market, costs of trade, factory-related costs, relative proportion of the factors of production; and
- **Non-traditional or specific determinants**, such as: share of private businesses in the overall economy, country-specific privatization type, quality of infrastructure, corruption and risks associated with each host country.

In the context of the above mentioned determinants, Mateev (2009) explained that market size is often measured by gross domestic product. Thus, the higher the GDP, the greater the attractiveness of the host country is. In terms of the distance to the market, he took into account the geographical distance of the countries and the transport costs, not excluding the cultural and psychic distance. As for the trade and factory related costs, he took into account the transaction costs, utility costs, labor costs, capital, etc. In terms of the proportion of the factors of production, he suggested that the differences in the proportion of the factors of production between the countries are useful when it comes to vertical FDIs, i.e. when a brand new product is produced in the host country (from raw material to finished product) in order to exploit the comparative advantage. But when it comes to horizontal FDIs (import of components and their finalization in the host country), differences in the proportion of the factors of production may indicate that the production of a product which is already produced in the country of the foreign partner is more difficult and expensive in the host country.

As far as the non-traditional factors are concerned, Mateev (2009) points out that the share of private businesses refers to the business climate in the country, the speed at which the state companies are privatized, which adds to the type of privatization - whether it is through FDIs, vouchers, etc. The quality of infrastructure is related to the existence and efficient operation of power plants, telecommunications, highways, etc. The level of corruption is shown through the well-established legal framework, index of corruption and so on. When it comes to the risk of the country, he thinks of the uncertainty, political and economic stability represented by the index of credit rating agencies, etc.

Zilinske (2010) supports the view that the effects of FDIs depend on the conditions prevailing in the country and suggests that the effects differ between the countries and within the countries themselves. Torrisi et al. (2008), Janicki and Wunnava (2004) complement the determinants of FDIs presented by Mateev (2009) with:

- **Openness** to global economy: represented by the degree of trade liberalization - greater degree of liberalization leads to greater attractiveness of the host country.
- **Value** of domestic currency: it depends on the inflation rate, the size of the current account deficit, which creates pressure on the exchange rate.
- **EU membership**: candidate status or membership in the EU have positive influence on attracting FDIs.
- **Tax breaks:** represented by the level of taxes; transparent tax system and lower taxes stimulate FDIs.

Susjan and Redek (2008) and Hetes et al. (2009) penetrate into the roots of the so-called transition process, which is of great importance to attracting and rejecting foreign investors, arguing that the concept of uncertainty related to the institutional transformation is a key determinant for attracting FDIs. Susjan and Redek (2008) suggest that in most countries, the process of building capitalist institutions has taken place more slowly and did not lead to formation of a strong, credible and effective institutional frame. For easier detection of problems in transition countries, the sources of uncertainty are divided into 3 groups that explain in details each source (ibid. p. 214):

- Sources arising from institutional and systemic transformation;
- Legacy of previous system(s); and
- Sources related to political instability and social change.

Cantwell et al. (2010) think that MNCs are confronted with institutional tensions more frequently than the so-called uni-national firms for two reasons. First, because MNCs operate across a wider variety of institutional environments, there is a greater variety of stimuli to encourage them to engage in institutional entrepreneurship. Second, modern MNCs are characterized by integrated network structure with highly autonomous subsidiary units and knowledge creation at decentralized level. This structure ensures that MNCs have incentives to invest in the transferability of innovations developed at the level of a subsidiary and corporate parent, and to disseminate new routines or best practices inside the firm. The latter aspect is important, because it emphasizes that MNCs are not merely confronted with more tensions than uni-national firms, but when they engage in institutional entrepreneurship they also have an incentive to invest in the ability to diffuse new institutions within the firm (Cantwell et al., 2010, p. 572). While theoretically MNCs may have been channels to transfer the more efficient institutional arrangements of their home countries to host economies, for the most part they seem to have primarily reinforced deficient local institutions (Jones, 2014).

The first group of sources relates to the privatization process, which, in most transition countries, is known as **wild** privatization. The slow pace of the process and the delays in the implementation of legislation on privatization led to a situation in which most of the state-owned property went into private hands. At the same time, the vaguely defined ownership increased the uncertainty in the economic environment, which negatively affected the investment activities. This group also includes consolidation and restructuring of the financial institutions which, on the one hand, had the effect of stabilizing the economies in transition, but, on the other hand, led to increased interest rates and recession stimulation (Mateev, 2009).

The second group of sources includes financial support by the state given to some economic entities, where this support, although highlights the discriminatory nature, i.e. disruption of fairness of the system, destabilizes the economic environment by deepening the budget deficit. This group also includes forced crediting, or crediting between companies, where, amid financial problems for the businesses (inability to pay liabilities to suppliers), there is a spread of liquidity problems throughout the economy. This is coupled with the inefficiency of the legal system: frequent changes of laws, slow legal procedures, insufficient protection of property rights and corruption, resulting in unattractive investment climate (Mateev, 2009).

The third group of sources refers to political instability, ethnic conflicts, wars, nationalism, which later create space for social discrimination, unemployment and development of gray and black economy. This phenomenon of black economy is usually accompanied by illegal economic flows, controlled by various criminal organizations, corrupt local officials, etc. Susjan and Redek (2008) concluded that in case of high level of these sources of uncertainty, foreign investors are forced to fight the risk and uncertainty of the economic environment, instead of focusing on planned activities, i.e. strategic objectives. The result of this frustration in foreign investors is reduced efficiency, reduced FDI inflows and slow economic growth.

The political instability as a determinant of FDIs is described below in this paper, which, based on everything said so far, is of primary importance to attracting foreign investments and, consequently, to achieving economic growth.

In his research, Carmignani (2003) speaks of the relationship between political instability and economic growth. He argues that political instability causes uncertainty regarding the future course of the economic policy - particularly the policy of taxation, the degree of execution of contracts, as well as the socio-economic environment (e.g. risk of expropriation, closure of the company, strike, confiscation of private property and companies). As a result, he sees a negative *correlation* between political instability and investment, and thus a negative correlation with economic growth.

Brada et al. (2006) add to this, by defining two major risks of political instability faced by foreign investors. The first risk relates to the domestic instability, civil war, conflict with neighboring countries, resulting in reduced profitability for foreign investors. The other risk of political instability refers to the effect it has on the value of domestic currency, on the foreign exchange market, the volatility of the exchange rate, and thus of the funds invested in the country. Brada et al. (2006) and Bittlingmayer (1998) point to the relation between the political instability and volatility of the stock market, which affects foreign investors. They argue that there is a negative correlation between political instability on the one hand and the return on invested assets, the value of domestic currency and the exchange rate on the other hand.

Based on the arguments above, it can be concluded that the macroeconomic environment has a major impact on attracting FDIs. Therefore, each country should constantly strive to improve the economic and political conditions to make use of the FDI inflows.

2 MULTINATIONAL COMPANIES AND THEIR TYPOLOGY

Globalization has caused emergence of MNCs at an accelerated pace. MNCs are responsible for the introduction of new working environments, but they also play important role in doing business. According to Bartlett and Ghoshal (1994), MNCs are not only businesses, since they are much more concerned in how the business is conducted. Lately, air traffic, portable telephones, carriers and computers, which are easily available and affordable, have removed all the barriers that used to divide physically the regions and countries. Today, information, ideas and images are largely shared on the Internet. The differences between MNCs are seen in the type of products they produce, in what business strategy they implement and in the locations they choose for their businesses. Yet, global integration and local responsiveness play crucial role in typology/classification of MNCs. The emergence of MNCs has resulted in close relationship, i.e. interdependence between economic units and political entities.

Since the studies on typology of MNCs lacked empirical evidence, they were unclear and thus led to confusion in the definitions provided and existence of different descriptions for certain types of MNCs (Harzing, 2000). A multinational typology model was developed by Bartlett and Ghoshal in 1989, who realized the need for clear and well defined typology of MNCs which would be in line with the contemporary social norms, and would incorporate both a strategic and a managerial perspective and treat MNCs as intra-organizational networks (Rašković et al., 2013; Rašković, 2012). Hence, according to Harzing, three major typologies of MNCs can be distinguished: global, transnational and multi-domestic.

Aggarwal et al. (2011, p. 560) gave some criteria for defining MNCs, which are organized in 3 groups: performance definitions, structural definitions and behavioral definitions, as it is illustrated in Figure 3.

Figure 3. Criteria for Defining MNCs

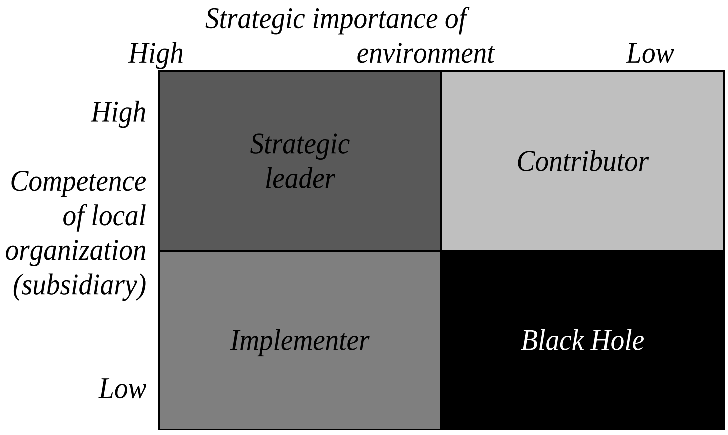
	Performance definitions	**Structural definitions**	**Behavioral definitions**
Criteria	❖ Subsidiaries ❖ Sales ❖ Foreign assets ❖ Foreign production ❖ Foreign joint ventures ❖ Foreign income ❖ International transactions ❖ Foreign investments ❖ Mergers and acquisitions	❖ Foreign employees ❖ Foreign exchange listing ❖ Industry details ❖ Foreign equity ❖ Foreign taxation ❖ Global accounts	❖ Research and development ❖ International marketing ❖ World mandates ❖ Patents ❖ Unclear

Source: Adopted from R. Aggarwal, J. Berrill, E. Hutson, and C. Kearney, *What is a multinational corporation? Classifying the degree of firm-level multinationality*, 2011, p. 560

2.1 The Bartlett and Ghoshal Typology

Bartlett and Ghoshal published their first paper entitled *The new global organization: differentiated roles and dispersed responsibilitie*s in 1985, being the stepping-stone to their research stream on MNC. This is regarded as a two-level synthesis of all related studies till then and as a synthesis of the strategic and managerial perspectives of MNCs. In their seminal typology, they strike a balance between key strategic objectives and sources of competitive advantage of MNCs from both a strategic and managerial point of view.
However, their first important work entitled *Tap your subsidiaries for global reach* was published in 1986 in Harvard Business Review. In this paper, Bartlett and Ghoshal warn against the so-called "*United Nations headquarters' syndrome of blind and centralized headquarter-centric replication in foreign markets*" (p. 89) and urge for a new understanding of the structure of multinationals and their subsidiaries, stressing their significance in creating and achieving competitive advantage of MNC. Here, they explicate the typology of the potential roles of the subsidiaries of MNCs, known as Bartlett and Ghoshal's subsidiary roles typology (see Figure 4), based on the degree of strategic importance of the environment and the level of subsidiary competence.

Figure 4. Bartlett and Ghoshal's Typology of Subsidiary Roles



Source: M. Rašković, M. Makovec Brenčič, and M. Jaklič, *Antecedents and evolution of the Bartlett & Ghoshal transnational typology*, 2013, p. 159.

In this typology, the traditional headquarters-centric MNC perspective, which focuses on the individual dyadic headquarter-subsidiary relationships governed by the headquarters through **centralization, formalization, coordination** and **control** is abandoned (Enright & Subramanian, 2007, p. 897). This typology, moreover, is based on the evolutionary perspective of MNCs through the process of internationalization of the domestic company, and the impact of this evolutionary process on the headquarter-subsidiary relationship itself (Stopford & Wells, 1972; Johanson & Vahlne, 1977). However, contrary to the perspective of Stopford and Wells (1972), the perspective of MNCs as a "*network of interdependent subunits in which each subunit has an active role in contributing to the whole of the corporation*" (Ferreira, 2011, p. 360), may imply that individual subsidiaries of the multinationals are, to a certain extent, responsible for the creation of their roles. Yet, Bartlett and Ghoshal's typology of subsidiary roles incited a number of other strategic subsidiary role typologies in the coming period (Enright & Subramanian, 2007).

The principle of necessary complexity is prominent in business administration, which implies that the structure of the company must be as complex as the environment in which it operates. No matter how clear this definition is, in reality, it is very difficult to apply and follow it since companies strive to expand their operations and become multinational, thus their complexity changes, but also local markets have lately changed and grown into global (Harzing, 2000).

Rugman et al. (2011) proposed re-conceptualization of Bartlett and Ghoshal's subsidiary roles typology, since "*despite the popularity of the Bartlett and Ghoshal's typology and its seemingly general applicability, the recent international business literature* (Anand & Delios, 1997; Benito et al., 2003; Bouquet & Birkinshaw, 2008; Kedia & Mukherjee, 2009; Mudambi, 2008) *had documented some major changes in the international business environment that suggest the need for further conceptual improvement*" (Rugman et al., 2011, p. 255). Such re-conceptualization primarily relies on two aspects of Bartlett and Ghoshal's (1986) typology (Rašković et al., 2013).

The first aspect, according to Rugman et al. (2011, p. 255), speaks that MNCs can "*more easily fine-slice value chain activities*" because of the easy access to various external resources and more efficient usage of internal resource, as well as the "*more fine-tuned inter- and intra-subsidiary coordination*". As an illustration, "*a particular national subsidiary is a strategic leader for sales activities, but is little more than an implementer at the R&D side*" (Rugman et al., 2011, p. 256). Hence, Bartlett and Ghoshal call for a division of the original national subsidiary roles to the level of specific value chain activities which may result in alternating roles of particular subsidiaries. The second aspect, according to Rugman et al. (2011), speaks of the potential semi-globalization forces and processes which may result in regional integration. It also speaks of "*the importance of geographic areas different from the national level, but below the global level*" (Rugman et al., 2011, p. 256).

Bartlett and Ghoshal's (1986) work on the subsidiary roles of MNCs heavily focuses on the practical managerial implications. By analyzing various companies, they basically worked on the outlines of their subsequent MNC typology. This was strongly influenced by Bartlett's (1986) research of the organizational challenges in managing MNCs, which was published in Porter's (1986b) book "Competition in Global Industries", where the idea of the MNC began to emerge as a superior transnational solution. Here, MNCs are seen as biological forms, with a structure believed to be reinforced by a physiology (in the form of organizational/ managerial processes) and a psychology (in the form of different types of managerial/ organizational mindsets) (Rašković et al., 2013).

In 1987, Bartlett and Ghoshal published two important works in the Sloan Management Review entitled *Managing across borders: new strategic requirements* (Bartlett & Ghoshal, 1987b) and *Managing across borders: new organizational responses* (Bartlett & Ghoshal, 1987a). In Managing across borders: new strategic requirements, they deal with real companies and stress the idea of a new set of strategic challenges brought by the 1980s, thus putting in question the existing "*worldwide strategic approach and [forced MNCs] to adapt their organizational capabilities*" (Bartlett & Ghoshal, 1987b, p. 7). They thought those strategic challenges were only possible along with a crucial move from "transition to trans-nationality", which aimed at developing a new set of multidimensional strategic capabilities, driven by "*a simultaneous demand for global efficiency, national responsiveness, and worldwide learning*" across most of the industries worldwide (ibid. p. 7).

Bartlett and Ghoshal (1987b) claim that only efficient value creation, founded on resource sharing, exchanges and combinations may lead to strong competitive advantage in transnational settings. In their research, they relate strategic challenges with industry specifics in order to explain how new varieties of transnational branches emerge (Rašković, 2012). Furthermore, Bartlett and Ghoshal showed huge interest in studying the organizational constraints and administrative heritage, which they see as major obstacles in the process of transition of one multinational company to transnational. According to them, crucial in this process is the application of adequate instruments and recommendations by the MNC's management, since MNCs "*knew what they had to do; [however] their difficulties lay in how to achieve the necessary changes*" (Bartlett & Ghoshal, 1987b, p. 12).

In *Managing across borders: new organizational responses*, they offer a number of potential solutions to the issues discussed in *Managing across borders: new strategic requirements*, by analyzing myriad of case studies of existing companies, including Unilever, Procter & Gamble, NEC, etc. (Rašković et al., 2013). One of their key concerns in this work, among the other things, is to stress the need of striking a balance by MNCs in terms of "*the network of dependencies and inter-dependencies between its international offices*" [...where the...] proper structural balance among product, functioning of each unit, and area of expertise will be a function of the management character, the history of the company and its long-term goals (Bartlett & Ghoshal, 1987b, p. 10).

Hence, either/or choices related to centralization/decentralization and integration/ responsiveness should be avoided, and three important assumptions should be dismissed with regard to optimal integration levels, namely (Rašković et al., 2013):

- the assumption of uniformity among different company and business units;
- the assumption of formalization and clearly defined relationships among units; and
- the assumption of how clearly understood control and decision-making mechanisms ought to be institutionalized by top management (Bartlett & Ghoshal, 1987b, pp. 10-11).

Bartlett and Ghoshal analyzed in details the organizational form of MNC as superior organizational form and mindset, able to react to the need for global effectiveness in the paper they worked on in 1988. For this purpose, they primarily analyzed the business operations of Western and Japanese MNCs in the global market and referred to their inability to leave behind the "*efficient central management and flexible operations*" (Bartlett & Ghoshal, 1988, p. 55). However, they speak of two organizational heritage types (Rašković et al., 2013):

- Decentralized federations of "*fairly independent and self-sufficient national subsidiaries*" (such as many European and North American MNCs), which are facing huge problems with coordination and control (ibid. p. 55); and
- Japanese centralized hub MNCs, which are less "*sensitive and responsive to the countervailing forces of localization*" (ibid. p. 55).

Bartlett and Ghoshal (1988) stress the importance of developing transnational capabilities for the purpose of balancing global efficiency and local responsiveness, being the two major challenges. According to their findings, the location of the opportunity or threat is not always the same with the location of the organizational resources of the company for adequate and timely response since the location of the opportunities and threats can easily change which is not the case with the company's resources. Very often, the company's strategic resources are situated on locations based on the organizational needs and intentions, as well as on the administrative history of the company (Rašković et al., 2013).

Main coordination levers, according to Bartlett and Ghoshal, are information and data flow, as well as learning and knowledge sharing. With this, they highlight the need for worldwide learning, based on the trade-off between global integration and local responsiveness (Ferreira, 2011).

In their work, they refer to a number of **environment-resource mismatches**, where the appropriate resources are located in various environments, controlled by the company's history and administrative heritage (Bartlett & Ghoshal, 1988, p. 65). Typical example for this is the Swedish telecommunications company Ericsson. Ghoshal and Nohria's (1989) further worked on the fit/misfit aspects between the companies' structures, environments and resources.

According to Bartlett and Ghoshal (1988, p. 65), specific and systematic managerial solutions are needed for **such environment-resource mismatches** which are pervasive among MNCs. Therefore, they defined three organizational features, based on the example of Ericsson, which helped in developing the management of specific transnational capabilities (Rašković et al., 2013):

- facilitating resource and responsibility interdependencies among different MNC units;
- building myriad cross-unit integrations (linkages), with the help of the **so-called inter-unit integrating devices** (p. 162) ; and
- crafting a strong MNC identity, reinforced through shared identification with the MNC and a **well-developed worldwide management perspective** (p. 162) .

It can be concluded thereof that Bartlett and Ghoshal (1988, p. 71), being practically oriented, consider that "*MNCs' struggle with the new globalizing business landscape had been slow in coming [...] not for the lack of strategic clarity about the need for change but for want of the organizational ability to implement the desired change*". On the other hand, the transnational MNC type, when it comes to its structure and resource management, i.e. organizational form and mindset, is reinforced by creating and managing appropriate transnational capabilities, and by the understanding that "*dynamic interdependence is the basis of a transnational company [where] one can think globally and act locally*" (Bartlett & Ghoshal, 1988, p. 69).

The practically-focused and company-based nature of Bartlett and Ghoshal's work from the 1980s experienced its peak with their highly influential book entitled: *Managing across Borders: The transnational solution* in 1989.

In Bartlett and Ghoshal's view (1989), if an internationally active company wants to be globally recognized, competitive and successful, it must follow three important strategic goals (Rašković et al., 2013):

- **global efficiency** in existing activities and operations;
- **international flexibility (local responsiveness)** in managing risks and opportunities; and
- **world-wide learning** and knowledge sharing in international and local contexts.

Bartlett and Ghoshal, in 1989, made a step forward in analyzing MNCs by abandoning the simple strategic management aspect (i.e. market characteristics and competition) and leaning towards the organizational and structural aspects of MNCs (environmental, intra- and inter-organizational settings) (Rašković et al., 2013).

According to Harzing (2000), Bartlett and Ghoshal's typology (1989) distinguished itself from the other existing MNC typologies which were mainly grounded on Levitt's and Porter's distinction of global and multi-domestic strategies. However, Bartlett and Ghoshal's typology shifted from the "*uni-dimensional concepts of fit between environment, strategy and structure*" (Rugman & Verbeke, 1992, p. 766) towards a triadic emphasis on "*worldwide learning, national responsiveness and global efficiency*". The complex structure of the triadic emphasis reveals the existence of corresponding mechanisms which define the relationship between internationalization and diversification in MNC (Rašković et al., 2013). In a transnational type of company, the main sources of competitive advantage are achieved through a high degree of continuous and simultaneous resource and capability sharing, restructuring and co-creation (Furrer, 2011).
The relationship between different value-creation mechanisms and sources of competitive advantage is the key issue between Porter's (1987) four corporate-level strategies and Bartlett and Ghoshal's (1989) four MNC types (see Table 2). Hence, the transnational type of MNC simultaneously strives towards scale, scope, and responsiveness, which is achieved through the network/actor-interdependent organizational structure, where the issue of network density is crucial and driven by a specific type of mentality-based governance (Bartlett & Ghoshal, 1990).

The issue of governance, although seemingly neglected, was tackled by Barlett and Ghoshal in their work, which specifically dealt with "*the issue of conditional fit between strategic behavior and available organizational capabilities*" of the MNC (Rugman & Verbeke, 1992, p. 768) and thus penetrated deep into the evolution of the multi-divisional organization.

As far as the issue of different types of MNCs is concerned, the *international MNC type* pursues simple forms and modes of international business operations in a restricted number of markets in which the company has established its subsidiaries, aimed at providing support to the company's foreign trade activities and transactions (Bartlett & Ghoshal, 2000). However, the **multinational MNC type** pursues a vast variety of forms and modes of business operations in different markets and sectors. This type of company is characterized by a higher level of independence and autonomy of its subsidiaries abroad, which operate in their own name and in the name of the parent company. Yet another characteristic of the multinational type of company is the frequent transfer of knowledge to foreign markets. Notwithstanding, the fundamental characteristic of the **global MNC type** is seen in its global presence and business operations in world markets. Such companies appear in highly diversified forms, with varying ownership structure and centralized management model with the subsidiaries. The **transnational MNC type** is characterized by the ability to adapt to the local needs, ensuring worldwide global efficiency with the simultaneous ability and management of worldwide learning/knowledge transfer (Bartlett & Ghoshal, 2000).

Table 2. 4 MNC Types

TNC (Mentality) type	**Multinational type**	**International type**	**Global type**	**Transnational type**
Strategic orientation	Building flexibility to respond to national differences trough strong, resourceful and entrepreneurial operations.	Taking advantage of knowledge and capabilities of the managing mother company trough world-scale expansion and adaptations	Achieving cost advantages trough centralized operations with global reach.	Developing global efficiency, international flexibility and world-wide learning at the same time.
Assets and capabilities	Decentralization and rational self efficiency.	Centralization of sources of competitive capabilities, the rest decentralized.	Centralization and global reach.	Dispersion, interdependence and specialization.

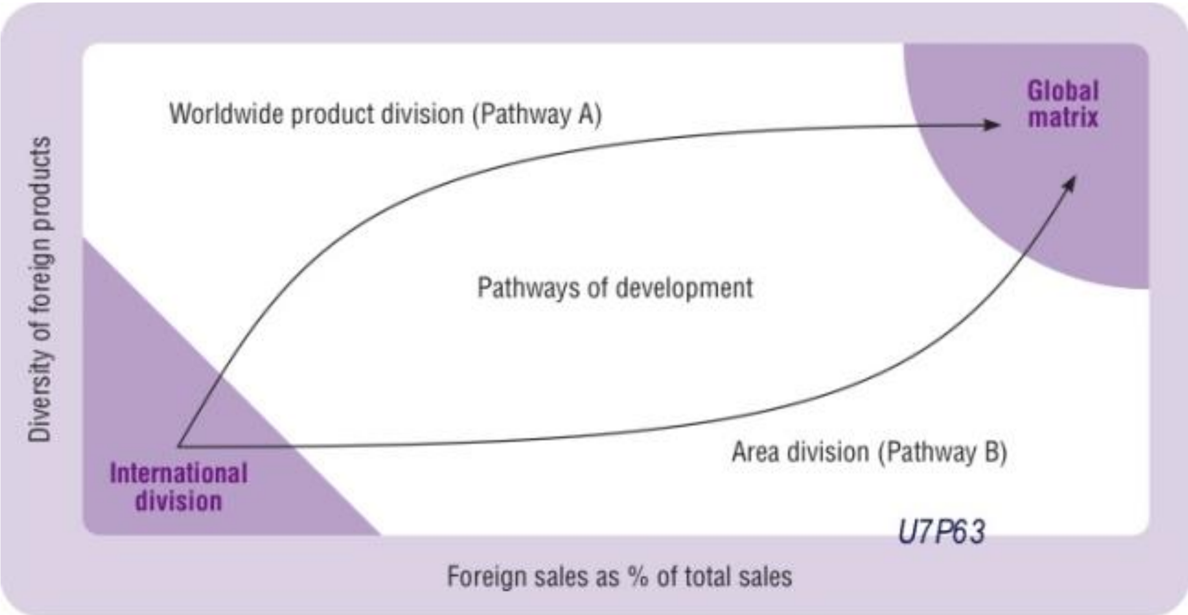
Source: Adapted from C. Bartlett, and S. Ghoshal, *Transnational anagement: Text, cases, and readings in cross-border management*, 2003, p. 255

As it can be seen from Table 2, these four different MNC types emerge in different strategic orientations and asset/capability configurations. Hence, the strategic orientation of the multinational MNC type focuses on local responsiveness; the international MNC type focuses on exploiting skills, capabilities, experience and knowledge of the parent company; the global MNC type focuses on building economies of scale through centralization and standardization (Bartlett & Ghoshal, 2000).

The transnational MNC type is seen as an ideal and simultaneous balance of all three strategic orientations (Zaheer, 2002). Balance is achieved only by focusing equally and simultaneously to the MNC's physiology and psychology, "*based on elaborative dispersion, interdependence and specialization of assets and capabilities, as well as by a more nuanced understanding of the organizational mechanisms and managerial implications within the MNC as a differentiated inter-organizational network*" (Ghoshal & Bartlett, 1990, p. 163).

In 1989, Bartlett and Ghoshal continued their joint work by publishing *Managing the Global Firm* (edited by Bartlett et al., 1990), but they also published other joint and individual works in the coming period, based on examples of existing multinational companies, their respective experiences and practices (Rašković et al., 2013).

Figure 5. Stopford and Wells Model of Structure of MNCs

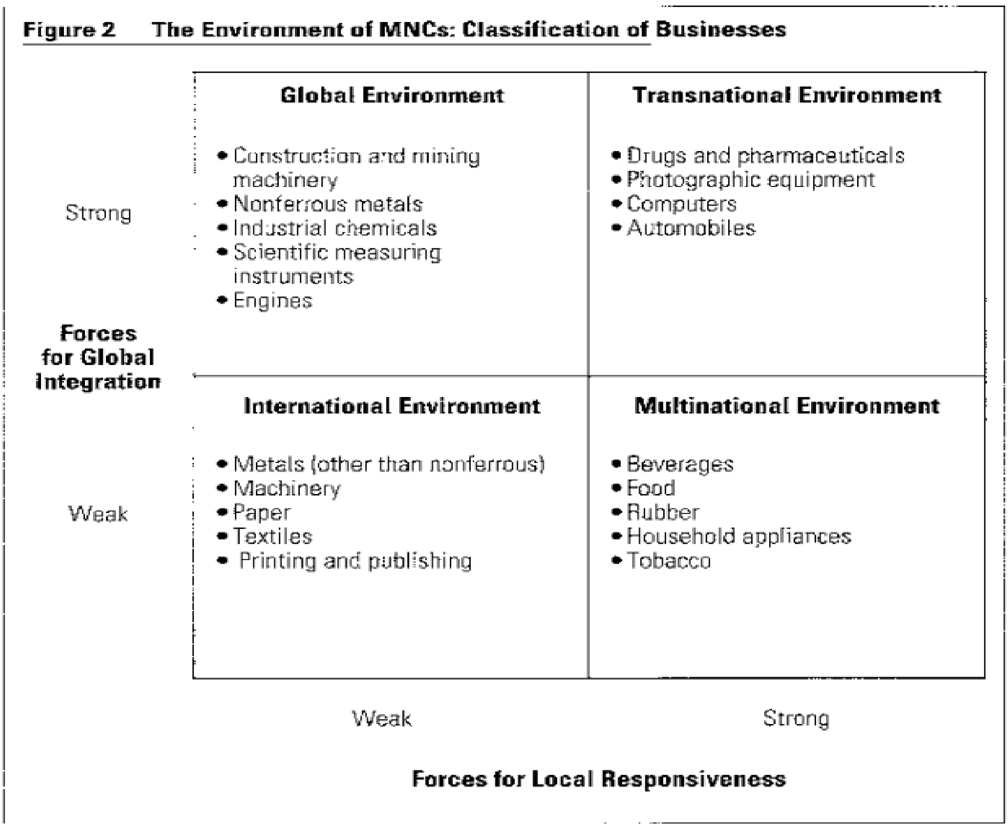


Source: J. Stopford and L. Wells, *Managing the multinational enterprise: Organization of the firm and ownership of the subsidiary*, 1972, p.112

Stopford and Wells (1972) proposed a model which describes the structure of multinational or multidivisional companies based on two dimensions: quantity of products sold in international markets (also known as foreign product diversity) and the importance of foreign sales to the company, as illustrated in Figure 5. Based on this model, those companies which are experiencing significant growth in foreign product diversity are inclined to assume a worldwide product division structure. On the other hand, those companies which have opted to increase their sales abroad but have not increased substantially their foreign product diversity have in general adopted the so-called area structure. If, for example, foreign product diversity and foreign sales have reached high levels, then it means that companies have turned to global matrix.

Despite the strengths of this model, it lacks important aspects, such as the reaction of MNCs to other vital factors, i.e. adaptation to local environment, modification of structure. Therefore, this model is supplemented by two frameworks. The first framework relates to the adaptation to the environment, namely what MNCs are expected to do in order to adapt to the new environment and be able to operate efficiently, and the second framework relates to the structure of the companies which have many subsidiaries worldwide and the changes they have to implement in their structure and management strategy.

Figure 6. Environments of MNCs and Classification of Industries



Source: S. Ghoshal, and N. Nohria, *Horses for courses: Organizational forms for multinational corporations*, 1993, p. 2

Ghoshal and Nohria (1993) developed a theory which indicates that MNCs operate in four different environments in which global integration and local responsiveness are crucial elements: **global environment** (strong global integration - weak local responsiveness); **multinational environment** (weak global integration - strong local responsiveness); **transnational environment** (both elements are strong) and **international environment** (both elements are weak). Figure 6 shows a classification of different industries based on global integration and local responsiveness elements. The most important aspect in this classification is the nature of the relationship between the company's headquarters and its subsidiaries.

Ghoshal and Nohria found three primary governance mechanisms that trigger the type of relationship: **centralization**, **formalization** and **normative integration**.

Based on these mechanisms, four possible MNC structures can be differentiated, namely:

- **Structural uniformity*:*** when a strong and uniform governance mechanism is applied for the whole company with small changes in the structure and management of the subsidiaries. There is a high level of integration and the differences are unremarkable. A "company way" of doing business is generally accepted and prevails in the relationship between the company's headquarters and its subsidiaries
- **Differentiated fit*:*** when the company applies different management models in different subsidiaries in order to meet the requirements of the local environment. The company can easily detect the differences and apply specific headquarter-subsidiary relationship to make sure that its operations and management structure are suitable to the local environment.
- **Integrated variety*:*** when the company is guided by the logic of differentiated fit but takes into account the specific relationship which relies on a dominant overall integrative mechanism, i.e. strong centralization, formalization, or normative integration.
- **Ad hoc variation:** this model is applied when there is neither a dominant integrative mechanism nor an explicit pattern of differentiation to respond to the needs of the local environments.

The transnational organization model, which is characterized by strong global integration and local responsiveness forces, was introduced by Bartlett and Ghoshal in 1989. According to Bartlett and Ghoshal (1989, p. 69), "*the companies used in the study were heading in transnational direction, but none of them had actually achieved it*". They define MNCs as very diverse, complex, and dynamic organizations, with flexibility as mandatory feature. Unlike Beaman's model with top-down management, he proposed a new model, a different approach from the old strategy/structure, in which the organization is a portfolio of core macro-processes which include the entrepreneurial process, the horizontal learning process and the continual renewal process (Bartlett & Ghoshal, 2000).

This model is again based on the relationship between the company's headquarters and its subsidiaries. Bartlett and Ghoshal made further analysis and differentiated four types of strategies applied by MNCs, each striking balance between the potential global integration and global differentiation needs. Namely, in choosing the strategic model which would guarantee global competitiveness, MNCs should be guided by the requirements of the environment. The choice of specific strategic model should be made upon assessment of global integration and global differentiation forces. However, the choice of specific strategic model should also meet the requirements and resist the pressure of the environment to be attractive for the locals. Figure 7 shows the balance between integration and differentiation forces.

Figure 7. MNC Typology According to Bartlett and Ghoshal

Source: C. Bartlett, and S. Ghoshal, *Managing across borders: The transnational solution*, Harvard Business School Press, 1993, p. 61.

Multi-domestic (low integration pressure – high differentiation pressure): this model shows the degree of responsiveness to the requirements of the local market, which is basically one of the strengths of this model, as it is shown in Figure 8. Accordingly, the structure of MNC is a portfolio of autonomous companies at national level, including their overall value chain. However, innovation and knowledge developed and technology applied in such MNCs most probably remains within these companies, which is, however, a major weakness of this model.

Bartlett and Ghoshal (1989) found that multi-domestic companies are closely related with local environments. These MNCs, although autonomous in terms of the headquarters, other subsidiaries or the company itself, are in principle interdependent. According to Harzing (2000), multi-domestic companies are independent sub-units with a high level of local responsiveness and a strategy that meets local market requirements, as described in Figure 8.

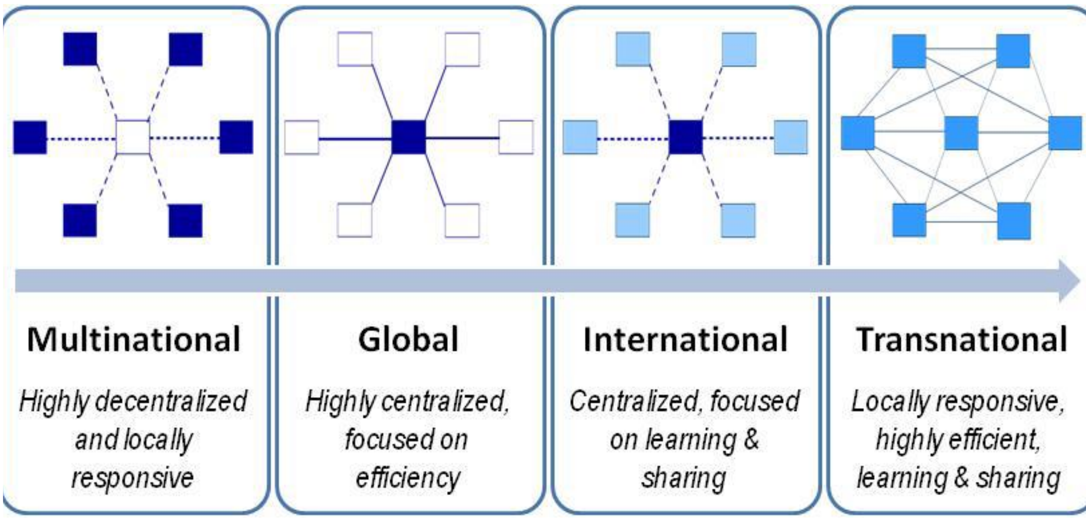
International (low integration pressure – low differentiation pressure)*:* the expertise applied in the home country is the basis of this model, yet the vast part of the value chain remains in the headquarters. The production technologies, the control thereof, as well as the general management strategy are defined and developed in the home country.

However, innovation and knowledge are dispersed from the headquarters in the home country to the subsidiaries.

Global (high integration pressure – low differentiation pressure): economies of scale are the basis of this model. Hence, the MNC's headquarters are rather strong and the value chain is present in its entirety only there, while the subsidiaries are pretty weak and strongly depend on the knowledge and resources available and disposed of in the headquarters. In such MNCs, innovation is developed in the home country and is transferred subsequently to the subsidiaries.

Transnational (high integration pressure – high differentiation pressure): this model optimizes integration and responsiveness at the same time. In such case, the MNC is seen as a network, where every subsidiary has responsibility over the processes according to the employed general strategy and respective capabilities it avails of. MNCs of this kind develop and spread knowledge and innovation equally across the network by relocating managers and personnel in different subsidiaries.

Figure 8. Organizational Structures, Headquarter-Subsidiary Relations and MNC Types



Source: L. Martin, and K. Beaman, *Leveraging HR technology: From global saving to transnational value*, 2000, p. 34

2.2 Strategic Orientations of MNCs

The success of the company which has decided to extend its activities beyond the borders of its country largely depends on the thorough analysis of internal and external surroundings of the country in which it plans to sale its products or perform its business operations. Success at international level requires proper formulation of international strategy. International strategies differ from one another based on how much the company is willing to change the manner of working in order to accommodate to the manner of working of the state in which it will operate, as well as the level of resources it is willing to commit for this purpose. Accordingly, there are four types of international organizational strategies pursued by MNCs at the strategic level, including (Daniels, Radebaugh & Sullivan, 2004):

- **Ethnocentric strategy:** it is a strategy applied by the companies whose products and services are considered to be superior products and services compared to those of the competitors. The products are manufactured in the home country, but are sold in other countries (Daniels, Radebaugh & Sullivan, 2004).
- **Geocentric strategy:** it is a strategy based on the geographical decentralization with a narrow product range and production in several countries. The risk in such companies is reduced since the activities are performed in other countries, which is an advantage of this strategy because if the company faces problems in one country, the problems are not transferred to the other affiliates, subsidiaries, or in the other countries (Daniels, Radebaugh & Sullivan, 2004).
- **Polycentric strategy:** it is a strategy based on the existence of multiple independent markets and production of many different products. The risk is minimal due to the production of a wide range of products and activities performed in several countries (Daniels, Radebaugh & Sullivan, 2004).
- **Global strategy:** it is a strategy applied by global enterprises which are trying to standardize and integrate the activities they perform in different countries. They locate their activities in places where there are low costs and sell their products from there across the world. In this type of enterprise, managers actually develop skills and make decisions in the home country of the company which they later diffuse globally (Daniels, Radebaugh & Sullivan, 2004).

There are several kinds of operation/market entry models of MNCs such as (Bennett & Blythe, 2010):

- Export strategies.
- Licensing.
- Franchising.
- Management contract(ing).
- Turnkey operations.
- Mergers, acquisitions and takeovers.
- Establishing branches abroad.
- Joint ventures.
- Strategic partnerships.

Export strategy: is an international strategy which essentially implies selling products on foreign markets, namely products that are manufactured in the country of origin of the supplying company. Export is seen as the simplest way for a company to start international business. If the company produces products that meet domestic market needs, and, in parallel, it has capacity to sell its products to foreign markets, it can resort to export.

Moreover, if the product can no longer be sold in the domestic country, because it has reached the end of its life cycle, the same product can enter into a new life cycle if it is sold in a foreign country (Bennett & Blythe, 2010).

In order to organize the export, a number of activities must be finalized and ensured first, including: export insurance, transportation of goods, export financing, customs clearance, etc. The company can perform these activities independently, which is called direct export, but, if these activities are performed by intermediaries, it is called indirect export. However, there is corporate export as well.

Direct export is typical for companies that have greater financial resources to organize the export abroad, but also to large and attractive markets. Indirect export is applied when the company has no means to organize the export and therefore it decides to entrust the export to another company, which serves as an agent. Corporate export is when the company is willing to have a certain degree of control over the export of its products and therefore makes a deal with a partner – exporter and uses the partner's distribution network to export its products (Bennett & Blythe, 2010). Whatsoever type of export strategy is applied by a company, the product is exposed to a huge risk of damage, difficulties in overcoming the barriers to entry, high tariff rates.

With a **licensing** agreement, the company (the licensor) acquires the rights to intangible ownership of another company (the owner or beneficiary of the license – the licensee) for a certain period of time; in exchange, the licensee usually pays compensation to the licensor (Daniels, Radebaugh & Sullivan, 2004). Licensing is an international strategy that can be successfully implemented only if the patents, the rights of the licensor are well protected in the country of the company receiving the license. Licensing, in essence, means selling the rights of one company to another company in a foreign country, thus enabling it to use the technology, the name, the brand, the production process, the product, etc. of that company.

This strategy is used in cases where the company owns a popular product, yet the company does not have sufficient funds to finance independently its entry in a foreign country. It is also applied in cases where there are certain entry barriers in a foreign country or the costs of transportation are high. Through licensing, profit is acquired without additional investments; the company makes quick and easy entry into the host country, with minimal risk to its capital and so on. The main disadvantage of this international strategy is that the company-licensor cannot control the sales in the host country and it is possible the company-licensee to present smaller gains in order to pay a lower percentage from the sales to the company-licensor. The licensee may apply the name and brand of the license for its own purposes, to produce a product that does not meet the standards prescribed in the license and sell it through informal distribution channels, thus causing danger to the name, the brand, of the company-licensor.

Key elements in the licensing agreement include (Bennett & Blythe, 2010):

- geographical area covered by the agreement,
- charges and fees,
- agreed selling prices,
- confidentiality requirements,
- dispute settlement procedure and decision which country's legislation will prevail,
- minimum production levels,
- agreement termination and extension provisions.

Franchising: is an international strategy where the domestic company buys the legal rights to use the name, materials or operation methods of a foreign company for a certain percentage of the sales. With the franchise agreement, the foreign company adopts the overall business format of the franchise holder on the local market, its name, trademark, business methods, design of the premises, etc. (Bennett & Blythe, 2010). The buyer of the franchise (the franchisee) is obliged to implement all the activities in compliance with the agreement, under the name, trademark, emblem, processes or system characteristic of the franchise issuer. The company is obliged to arrange additional services to the franchisee in exchange of a fixed amount. Such services are: training, technical advice, financial loans. With this, the company issuer of the franchise provides complete control over the franchisee, which is crucial for the success of the franchise. Franchising allows the company rapid expansion, minimal investment; it makes use of the managers in the host country as they are more motivated to work (Bennett & Blythe, 2010).

When a company performs general and specialized services in a foreign country, its activities are implemented on the basis of a *management contract* as a form of international strategy. Management contracts are agreements based on which, for a certain fee, the company provides personnel to perform general and specialized management functions to another company (Daniels, Radebaugh & Sullivan, 2004). The company, through its professional team, performs activities such as management, technical knowledge, know-how in the host country for a certain amount of money and a certain amount of time. It is commonly used in the countries that are not open to development through FDI and therefore call on companies from abroad to carry out a particular job.

There are three types of management contracts (Daniels, Radebaugh, & Sullivan, 2004):

- The first type is when a particular foreign investment is expropriated by the national government and the former manager or owner is called to train the local manager.
- The second type is when the company sells the equipment and the buyer hires the employees from the company-seller until his employees are instructed to work with that particular equipment.
- The third type is when the company calls a foreign company, because of its expertise, to manage certain activities of the domestic company.

Management contracts cause minimal risks to service providers, because the service provider does not invest in new assets but utilizes the existing ones it own. It is a short-term type of contract; it mainly lasts from 3 to 5 years, and may result in creating a competitor through the training provided in the host company.

Turnkey: as a form of international strategy, is implemented when the company starts with planning, and then proceeds with designing and constructing buildings, i.e. it starts the process from the scratch to its completion, and, at the same time, conducts training of local personnel in the foreign company in the host country (Daniels, Radebaugh & Sullivan, 2004). The final product, i.e. the facility, is handed over to the client of this project, i.e. to the owner when it is ready to perform the activities independently. This type of strategy is often used by construction companies and such projects are implemented by more developed countries in less developed ones. Contractor of this project is often a state-owned enterprise which could, in the future, become a competitor to the contractor of turnkey. This is a long term project; payment is strictly specified in the contract, it is implemented in stages, in parallel with the execution of the activities. This strategy provides entry to the market in a country where there are restrictions on the contractor of this project. Main danger in the execution of this project is that a state-owned enterprise is contractor of such a project and the state may cause legal issues in order to delay the payment. Large companies that implement turnkey projects are: Bechtel, Kellogg Development, Fluor, while smaller companies are involved as subcontractors.

A **merger** occurs when two companies from different countries decide to establish a new company by integrating the activities at a relatively equal footing. The new company has resources and means to create a competitive advantage in the market. There are several types of mergers depending on the manner of their establishment, including (Daniels, Radebaugh & Sullivan, 2004):

- Horizontal merger is established by joining two or more companies that are direct competitors to each other.
- Vertical merger is established by joining companies which perform various activities in the production chain of the product. One company is supplier of raw materials, the other manufactures the product, the third may be a distributor, whereas another company is responsible for the sale of the product, etc.
- Concentric merger occurs when two or more companies which have the same type of product, technology, market or process converge.
- Conglomerate type of merger occurs by joining companies which have nothing in common, neither market, nor technology or product.

Takeover is a type of international strategy that occurs when a foreign company, in a hostile manner, adjoins the target company in the host country. It occurs with the purchase of the stakes in the stock market, while with the purchase of the controlling stake, the target company is undertaken. Very often the company’s management to which the foreign company adjoins does not agree to such an act, and therefore undertakes some activities, such as (Daniels, Radebaugh & Sullivan, 2004):

- It seeks a new company to which, in a friendly manner, it would sell the controlling stake, so that the manager will be able to continue working therein;
- It can offer a buyout of the company which has bought the stake in the stock market in order to abandon further purchase; and
- Perform emission of additional shares that would increase the price that should be paid by the buyer in order to exercise the right of management.

Acquisition is a type of international strategy where a foreign company attaches to, i.e. buys, an existing company in the host country (Daniels, Radebaugh & Sullivan, 2004). It enables a fast entry into a foreign country and quickly gaining management personnel, equipment, technology, distribution network. Significant advantage is achieved when a foreign company is attached to another company in the host country which is a competitor of the foreign company or a company which offers complementary products. This international strategy carries a great risk, because of the entry into a foreign country, integrating with permanent activities, investing major resources, purchasing less modern and attractive facilities and so on (Daniels, Radebaugh & Sullivan, 2004). A number of problems may also occur, such as: problem in finding a building, problem in fixing the price, problem with the changing exchange rates, etc.

Greenfield investment is a form of FDI where the mother company starts new activities in a foreign country through constructing new facilities from the scratch. Greenfield investment is an investment in production, premises or other physical structures associated with a company or group of physical structures where there are no other previous facilities (Moosa, 2002). This strategy is applied by companies that need or want to achieve control over the decisions and policies in the host country but also to build its own facilities at the highest standards, with the latest technology and to achieve full ownership over the profits. The Greenfield strategy brings profit to the host country by employing local population. Generally big MNCs resort to Greenfield investment when entering a foreign country (Bennett & Blythe, 2010).

Joint venture is when two or more companies from different countries have a common goal and conclude a cooperation agreement thereof. It is a kind of cooperation in which the companies combine their resources and knowledge to develop new products (Moosa, 2002). In joint ventures, companies remain separate, as independent legal entities, and with the completion of the project or the goal for which they joined, the partnership ceases to exist. The weakness of this strategy is that the partner can adopt the technology of the other partner and become his direct competitor. In case of failure of this type of partnership, the costs are covered by both partners.

The joint venture agreement should cover more aspects, such as management structure, financial participation, how much of the profit will be reinvested in the joint company, methods for determining transfer prices, which country's legislation will be applied in case of conflict of interests and many others. Careful selection of the foreign partner is essential - a partner who is well acquainted with the local environment should be chosen, a person who has proven expertise, knowledge and experience of local practices, capable of conducting research on the local market, who has many contacts with banks, government units, other businesses and so on.

Strategic partnership is an international strategy for cooperation between companies from different countries in carrying out specific projects or cooperation in certain areas (Bennett & Blythe, 2010). With the completion of the project, the partnership ceases to exist. This partnership provides access to complementary resources, access to new markets, entry into new businesses, avoiding competition, avoiding trade barriers. Economy of scale and sharing risks are the main advantages of the strategic partnership. Often, as a result of poorly chosen partner and non-compliance of the goals or different cultures, the strategic partnership fails. For a successful partnership, it is necessary to choose a compatible partner whose products complement the products of the foreign company. It is also necessary to quickly learn the technology of the partner and be careful not to reveal secrets of strategic importance to the company which could be used by the partner in creating a rival.

International strategy is important part in deciding to engage in international businesses. When the operations are shifting from domestic to international, the complexity of operations is also changing. The company's management should review the mission and goals, evaluate the strategies according to its possibilities and limitations. The choice of international strategy depends on the country's attractiveness and competitive advantages of the product. The government's regulations, economic and political factors, the market size, the growth rate of the market reflect the attractiveness of the country. Market share, meeting consumer's demands refer to the competitiveness of the product (Daniels, Radebaugh & Sullivan, 2004).

If a country is characterized by high attractiveness of a product, with high competitive advantages, an investment strategy or a development strategy should be chosen; if the country is attractive for investment, the management should make a decision to establish a subsidiary therein.

In case of low competitive advantages of the company's products and low attractiveness of the country in which the company plans to invest, the company should apply licensing, merger, or takeover. Those companies which are weak on the market very often use a profit gaining strategy and use the profit gained to secure the business activities of the company on the foreign market (Daniels, Radebaugh & Sullivan, 2004).

When the companies are participating in an attractive country for investment, but are weak on the market, they apply a joint venture strategy. They associate with companies from a foreign country and are thus able to cope with the problems and risks borne by the international environment.

When choosing an international strategy, the top management should apply certain criteria, such as (Bennett & Blythe, 2010; Makovec Brenčič et al., 2009):

- Legal regulations represent a specificity of each country and determine the boundaries in which the economic activities shall be pursued. Legal regulations include laws, out of which most important are: the labor law, the law on accounting, the law on FDIs, etc. Legislation differs between countries; therefore MNCs employ legal entities from the country where they invest in order not to violate the respective legal regulations.
- Risk is different from country to country. Most common are economic and political risks. The top management is trying to determine the level of risk and the degree of investment protection. If the risk to protect the assets of the investment is high, the most frequently used strategy is the strategy of joint ventures because the risk is shared between the partners.
- Costs play a significant role in making the decision for a Greenfield investment, joint venture, strategic partnership or purchase of an existing enterprise. If the costs for establishing a new enterprise in a foreign country are high, then the company will apply licensing, strategic partnership or other strategy.
- Geographical area plays a significant role in the decision to purchase a company, as well as in strategic partnerships and joint ventures. Depending on the activity of the company, the geographic area plays a greater or lesser role in the choice of the performance strategy. Traffic corridors, proximity to sea, abundance in natural resources enable the company easier placement and manufacturing of its products. Working online, i.e. Internet jobs, make the geographical area not to be considered an important prerequisite when choosing the strategy.
- Language: as a criterion for selection of an international strategy, language is important for all types of international strategies. Due to different linguistic areas, negotiations on purchase, sale, merging are taking place with more difficulties. English is considered international and thus the communication among individuals from different countries is facilitated.
- Experience: the management acquires experience through practical work and knowledge through education process. The lack of experience of international operations may lead to problems that will hinder the effective implementation of the selected strategy.
- Control: the bigger the ownership the greater the importance of the control as a criterion for selection of international strategy is.

3 FDIs OF MNCs IN THE REPUBLIC OF MACEDONIA

The global economic crisis has unfortunately halted the growth of FDIs throughout the world, and, thus, also in Macedonia. Most of the large MNCs decided not to invest in building new facilities elsewhere, not even in Macedonia. But with the “softening” of the global economic crisis, there was a new surge of interest in building new manufacturing facilities, including Macedonia. As can be seen in Table 3, in 2010, the inflow of FDIs marked an increase, which was a signal that the interest of foreign investors to invest in the domestic economy increased, but then again it stagnated until 2014 (NBRM, 2015).

Table 3. FDIs in the Republic of Macedonia between 2006 – 2014
(million US Dollars)

FDI flows								
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
424,0	700,2	600,5	185,5	206,9	473,9	147,7	350,1	370,0

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2014, p.2.

In the analyzed period between 2006 and 2014, FDIs in the Republic of Macedonia totaled 3,035 billion US Dollars, or an average of 337.2 per year, as can be seen in Table 3. Most FDIs came in 2006 and 2007, and least in 2009, 2010 and 2012. In 2007, a total of 9 Greenfield investments were registered in the Republic of Macedonia. In 2007, significant growth was recorded in the inflow of foreign capital in the Macedonian Stock Exchange (NBRM, 2015).

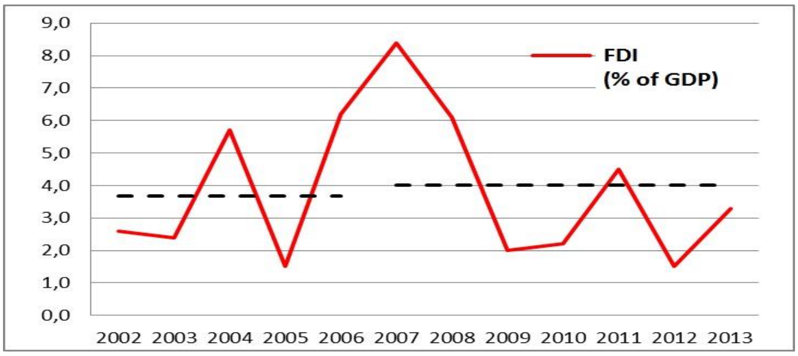
The amount of FDIs in 2011 equaled the sum of FDIs in 2009 and 2010. The rise of FDIs in 2011 was expected, as in that year several renowned companies started building plants in the country. In the period after 2011, the level of FDIs declined and stagnated to the amount of about 150 - 350 million US Dollars per year (NBRM, 2015).

World renowned companies, such as: Johnson Controls, Johnson Matthey, Societe Generale, the Swedish Dairy, MOBILCO Austria, Hypo Alpe Adria Leasing, Sava Reinsurance, Triglav Insurance, Lactalis from France through the Danube Group, Milestone, IBC Israel, Porshe Bank, CableTel, Central Cooperative Bank and many other companies have invested in the Republic of Macedonia.

The vast majority of FDIs are small investments of a few dozen million US Dollars. For example, the US company KEMET Electronics invested 15 million US Dollars, the second investment of Johnson Controls amounts around 23 million US Dollars. Although not huge, they are significant for the Macedonian economy. These companies, despite opening jobs, contribute significantly to Macedonia's export which, certainly means improvement of the living standards of the citizens in the region where they are located (SSO, 2013).

Figure 9 shows the dynamics of FDIs in the country starting from 2002 to 2013. The average level of net FDIs in the period prior 2006 was 3.7% of GDP; in the period 2007 - 2013 it reached 4% of GDP, which implies that there were no significant changes (NBRM, 2014).

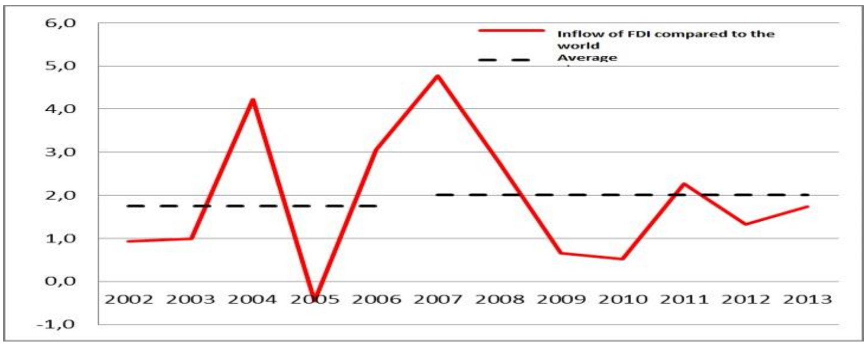
Figure 9. Net FDIs into Macedonia (as % of GDP) between 2002 and 2013



Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2014, p.11.

The situation would be similar if the global impact of the 2008 world crisis was excluded. Figure 10 shows the inflow of FDIs compared to the world (the inflow of FDIs into the country minus the inflow of FDI in the world). The difference between the two periods is only 0.4 percentage points. Hence, it seems that in the analyzed period there was not a significant increase in FDIs. This can be justified with the little importance given to the other impact factors of FDIs on their scope and size.

Figure 10. FDI Inflow Compared to the World (as % of GDP)



Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2014, p.12.

The Republic of Macedonia has been taking a series of measures to attract foreign investors. As can be seen from Table 4, the level of FDIs in Macedonia changes at a variable rate. According to UNCTAD (2015), in 2009, Macedonia experienced an inflow of 201 million US Dollars. In 2010, the inflow of FDIs in Macedonia amounted 213 million US Dollars, it further grew for 226 million and in 2011 reached the amount of 479 million US Dollars. In 2012, FDIs amounted 143 million US Dollars, which meant a drop in the value of FDIs undertaken in that year compared to the previous. In 2013, according to UNCTAD (2015), FDIs amounted 335 million US Dollars and in 2014 reached the amount of 348 million US Dollars. Compared to the period from 1990 to 1996, the period after the independence of Macedonia and the first years of its existence, the cumulative amount of FDIs was 64 million US Dollars. The primary inflow of FDIs came from the sale of ADOR Macedonia, Stopanska Banka - Skopje, FENI - Kavadarci, Zito Luks - Skopje, Macedonian Telecommunications, Marble Company – Prilep, Bucim - Radovis and many others.

Table 4. FDIs in the Republic of Macedonia per year between 2009 and 2014 (million US Dollars)

2009	**2010**	**2011**	**2012**	**2013**	**2014**
202	213	479	143	335	348

Source: UNCTAD, *The World Investment Report*, 2015, p.239.

3.1 FDIs in the Republic of Macedonia

If FDIs are analyzed based on the main difference that exists between FDIs and portfolio investments, i.e. the share of less or more than 10% in the capital, it may be noted that most of the foreign investments are FDIs. The first portfolio investments in Macedonia amounted 2.60 million Euros in 1995. In 1999, the value was 10.11 million Euros, then an increase of almost 100% was recorded in portfolio investments and a value of 19.69 million Euros in 2000. Highest value was reached in 2010 which amounted 139.68 million Euros, followed by a decline in the value of the portfolio investments which in 2012 reached the value of 114.52 million Euros, as shown in Table 5. (NBRM, 2013). In Macedonia, there is little interest in portfolio investments, given the fact that portfolio investments relate to the purchase of securities on the stock market which do not provide domination in the management of the enterprise. For this reason, foreign investors are increasingly interested in other performance strategies in Macedonia.

New investments or FDIs, as a more attractive form for entering Macedonia, marked a significant growth which in 1997 amounted 146.14 million Euros, in 2012 reached the value of 3,860.94 million Euros. From 1998 until 2012, they marked a continuous growth and, in 1998 they amounted 274.97 million Euros, in 1999 - 370.01 million Euros, in 2000 - 599.75 million Euros, in 2001 they amounted 1,120.05 million Euros, in 2002 – 1,242.71 million Euros, in 2003 they reached the value of 1,356.54 million Euros, in 2004 they amounted 1,639.62 million Euros, in 2005 they reached the amount of 1,813.71 million

Euros, in 2006 the amount reached 2,185.14 million Euros, in 2007 they amounted 2,677.73 million Euros, an amount of 3,102.05 million Euros was reached in 2008, 3,277.78 million Euros in 2009, 3,461.99 million Euros in 2010, 3,817.24 million Euros in 2011, up to 3,860.94 million Euros in 2012 (NBRM, 2013).

Table 5. Stock of Direct and Portfolio Investments in the Republic of Macedonia 1997-2012 (million Euros)

Type of investment	**Year**	**Total foreign investments**	**Direct investment in reporting economy**				**Portfolio investment**
			Total	**Equity capital**	**Other capital** [1]		**Equity capital**
					Claims	**Liabilities**	
		1=2+6	2=3-4+5	3	4	5	6
Foreign direct and portfolio investments in the Republic of Macedonia	1997	146.14	141.22	102.88	12.13	50.48	4.91
	1998	276.97	270.37	219.51	12.81	63.66	6.60
	1999	370.01	359.90	284.26	15.70	91.35	10.11
	2000	599.75	580.05	497.72	16.95	99.28	19.69
	2001	1,120.05	1,039.15	946.28	40.84	133.72	80.90
	2002	1,242.71	1,160.71	1,056.57	46.35	150.48	82.00
	2003	1,356.54	1,292.14	1,181.98	47.98	158.14	64.40
	2004	1,639.62	1,610.22	1,366.11	36.70	280.82	29.40
	2005	1,813.71	1,768.97	1,579.62	74.54	263.89	44.73
	2006	2,185.14	2,098.57	1,863.35	80.91	316.14	86.57
	2007	2,677.73	2,545.17	2,226.62	106.11	424.66	132.57
	2008	3,102.05	2,968.75	2,407.42	113.96	675.29	133.30
	2009	3,277.78	3,141.38	2,481.27	169.96	830.07	136.40
	2010 [2]	3,461.99	3,322.32	2,642.52	246.88	926.67	139.68
	2011 [2]	3,817.24	3,695.01	3,110.17	284.53	869.37	122.23
	2012	3,860.94	3,746.42	3,148.89	443.41	1,040.94	114.52

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia,* 2013, p. 41.

3.2 Mergers and Acquisitions and Greenfield Investments in the Republic of Macedonia

If FDIs in Macedonia are analyzed in terms of structure of new and permanent investments, mergers and acquisitions, but also Greenfield investments, should be analyzed, as shown in Table 6.

Table 6. Structure of New, Permanent and Other Investments in the Republic of Macedonia in the period 1997-2012 (cumulative data)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Structure of direct and portfolio investments	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital
Acquisitions and mergers (permanent investments)	**71,164,371**	**181,462,084**	**227,695,600**	**405,722,068**	**479,454,006**	**596,997,981**	**656,757,623**	**753,494,097**	**904,696,421**	**1,158,747,766**	**1,446,550,764**	**1,583,453,846**	**1,562,772,817**	**1,715,372,356**	**1,944,440,816**	**2,090,310,465**
Greenfield (new investments)	**36,624,976**	**44,648,801**	**66,660,673**	**111,682,087**	**547,716,209**	**541,567,690**	**589,610,848**	**642,001,483**	**719,645,569**	**791,090,467**	**912,655,694**	**957,290,821**	**1,047,556,265**	**1,066,643,598**	**1,286,441,194**	**1,179,821,032**
Foreign investments in trade companies	**107,789,347**	**226,110,885**	**294,356,273**	**517,404,155**	**1,027,170,215**	**1,138,565,671**	**1,246,368,471**	**1,395,495,580**	**1,624,341,990**	**1,949,838,233**	**2,359,206,458**	**2,540,744,667**	**2,610,329,082**	**2,782,015,955**	**3,230,882,010**	**3,270,131,497**
Subsidiaries										**70,154**	**-23,115**	**-18,664**	**7,315,301**	**180,632**	**1,506,037**	**-6,725,378**
Foundations			**5,624**	**5,608**	**5,167**	**10,310**	**10,273**	**10,270**	**10,292**	**5,149**		**-3,585**	**30,065**	**4,786**	**10,987**	
Total foreign investments	**107,789,347**	**226,110,885**	**294,361,897**	**517,409,763**	**1,027,175,382**	**1,138,575,981**	**1,246,378,744**	**1,395,505,850**	**1,624,352,282**	**1,949,913,536**	**2,359,183,343**	**2,540,722,418**	**2,617,674,448**	**2,782,201,372**	**3,232,399,034**	**3,263,406,118**

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2013, p.43.

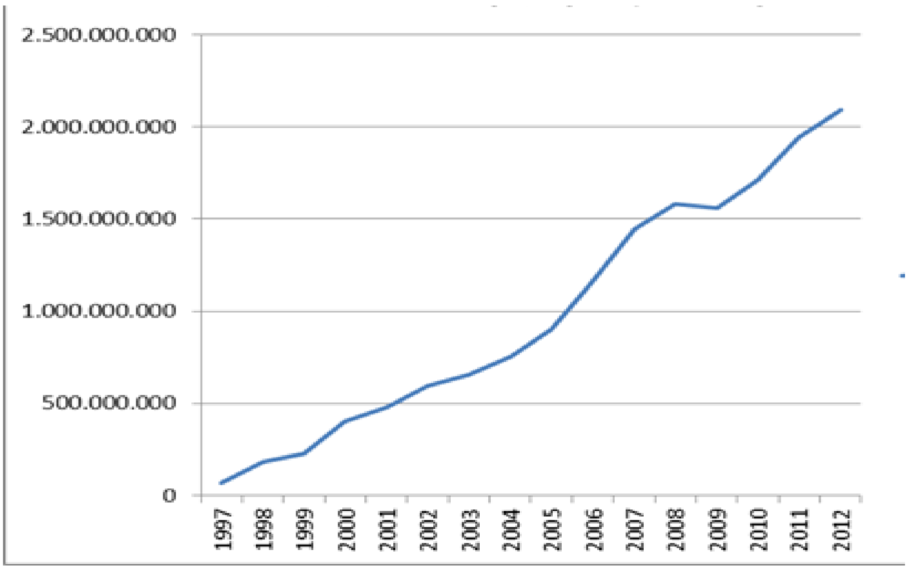
In Macedonia, there is little interest in portfolio investments, given the fact that portfolio investments relate to the purchase of securities on the stock market which do not provide domination in the management of the enterprise. For this reason, foreign investors are increasingly interested in other performance strategies in Macedonia (NBRM, 2013).

If analyzed dynamically, from the aspect of the type of investment, the share of new investments in 1997 amounted 34% and in the next three years it marked a continuous decline which in 2000 reached 22%. In 2001, the biggest share in new investments was registered and amounted 53%, which in the next years dropped again and in 2004 was 44%. By the end of 2011, foreign investors invested 61.26% of total capital in existing companies (existing investments), while they invested 38.74% in newly established companies (new investments), which is approximately at the same level as in 2010 when foreign investors invested 61.68% in existing investments and 38.32% in newly established companies (NBRM, 2013).

3.2.1 Mergers and Acquisitions in the Republic of Macedonia

Acquisitions in Macedonia, to a great extent, took place in the sector of industry and services. In the banking sector, there was an acquisition of Stopanska Banka AD Skopje, which in 2000 was taken over by the National Bank of Greece. There was also acquisition of NLB Tutunska Banka AD Skopje, as well as acquisitions of insolvent enterprises. As it is shown in Figure 11, in 1997, the value of acquisitions and mergers totaled 71,164,371 Euros, in 1998 they reached the value of 181,462,084 Euros and marked a steady increase in all subsequent years analyzed.

Figure 11. Mergers and Acquisitions in the Republic of Macedonia between 1997-2012 in Euros (cumulative data)



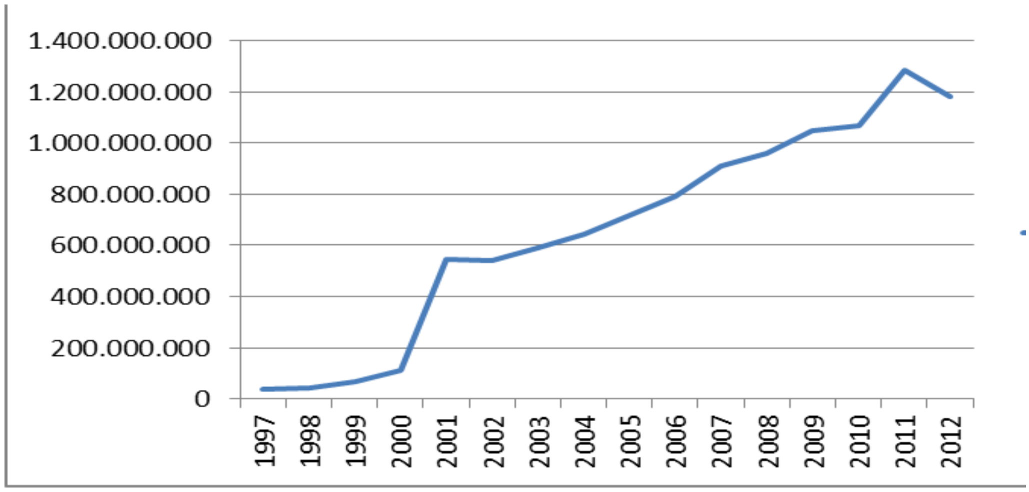
Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2013, p.48.

In 1999, they reached the amount of 227,695,600 Euros, in 2000 their value was 405,722,068 Euros, in 2001 they marked an increase of 73,731,938 Euros and reached the value of 479,454,006 Euros. In 2002, they reached the value of 596,997,981 Euros. In 2003, they amounted 656,757,623 Euros, in 2004 - 753,494,097 Euros, while in 2005 they reached the amount of 904,636,421 Euros. In 2006, there was an amount over 1 billion Euros and in 2006 they reached the value of 1,158,747,766 Euros, while in 2012 they reached the amount of 2,090,310,465 Euros. This means that, from 1997 until 2012, acquisitions and mergers increased by 2,019,146,094 Euros (NBRM, 2013).

3.2.2 Greenfield investments in the Republic of Macedonia

There were less new investments, according to the data of the National Bank, compared to mergers and acquisitions. Examples of Greenfield investments in Macedonia are: Johnson Matthey in Skopje, Van Hool also in Skopje, Kromberg and Schubert in Bitola, Drexler Mayer in Kavadarci, Grishko in Demir Hisar, Marquardt in Veles and many others. New investments did not mark continuous growth in the years. As it is shown in Figure 12, in 1997, they amounted 36,624,976 Euros and then, in the next 4 years, they marked a growth and in 2001 they reached the amount of 547,716,215 Euros.

Figure 12. Greenfield (New) Investments in Euros between 1997-2012
(Cumulative Data)



Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2013, p.50

In 2002, a decline in new investments was recorded of 6,148,519 Euros when they reached the value of 541,567,690 Euros. Reason for the decrease of Greenfield investments in this period in Macedonia may be the conflict of 2001 that caused instability in the country and uncertainty among the investors to make a decision to invest in Macedonia. By 2012, new investments began to grow again and in 2012 they reached the amount of 1,179,821,032 Euros, which is 106,620,162 Euros less than the previous year (NBRM, 2013).

3.3 Structure of FDIs in Different Industries

FDIs are grouped according to different industries as shown in Table 7. Larger commitments appear in the services sector. Another dominant and attractive activity for FDIs is industry.

According to Table 7, it can be seen that FDIs are most prevalent in services and industry. In 2006, services were represented with 46.92% of total FDIs in Macedonia or 1,295.65 million US Dollars. Industry covered 38.21% of total investments in Macedonia or amounted 1,056.05 million US Dollars. Third industry according to the amount of investments was electrification, gasification and water supply with a proportion in total FDIs in 2006 of 7.49%, or a total amount of 206.88 million US Dollars. Out of total FDIs, 3.36% went to construction industry, or amount of 92.82 million US Dollars. Mining and extraction were on the fifth place in 2006 with 2.16% share in total FDIs in Macedonia. Agriculture, hunting and fishing participated in total FDIs with 1.1% or 30.44 million US Dollars. Non-allocated activities occupied a very small part of total investments, or 0.77%.

Table 7. Structure of FDIs in the Republic of Macedonia by Industries between 2006-2008

Industries	**2006**		**2007**		**2008**	
	value	**share in %**	**value**	**share in %**	**value**	**share in %**
Agriculture, hunting, fishing	30,44	1,1	39,67	1,06	43,51	1,04
Mining and extraction	59,67	2,16	74,55	1,99	237,58	5,68
Industry	1.056,05	38,21	1.333,07	35,65	1.249,47	29,85
Electrification, gasification	206,88	7,49	237,57	6,35	231,67	5,54
Construction	92,82	3,36	127,9	3,42	165,29	3,95
Total services	1.296,65	46,92	1.913,91	51,18	2.257,83	53,95
Non-allocated activities	21,32	0,77	13,37	0,36	0	0
Sub-total	2.763,82		3,739,36		4.185,34	
Total	2.763,82	100	3,739,36	100	4.185,34	100

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2010, p.34

In 2008, foreign investments in services reached the amount of 2 257.83 million US Dollars which is 961.18 million more than in 2006, or, expressed in percentage, there was an increase of approximately 7%. Second place in 2008 again took investments in industry and amounted 1,249.47 million US Dollars or 29.85% of total foreign investments in the country. Compared to 2006, there was an increase of 193 million US Dollars. Foreign investments in electrification, gasification and water supply in 2008 reached the amount of 231.67 million US Dollars or 5.54% of total foreign investments in Macedonia, which meant an increase of 25 million US Dollars. Investments in construction reached the amount of 165.29 million US Dollars in 2008, an increase of 72 million US Dollars. Distinguishing for foreign investments by industries in 2008 is that investments in mining and extraction, from the fifth place in 2006 shifted to the third place, while construction marked a fall of one position. In mining, in 2008, foreign investments were represented with 5.68% of total foreign investments.

3.4 Geographic Origin of Inward FDIs in the Republic of Macedonia

According to the data of the National Bank (2014), in the last 20 years in Macedonia, there was an inflow of a total of 4 billion Euros in FDIs. Biggest investor in Macedonia was the Netherlands, with approximately 20% of the total investments share, corresponding to about 815 million Euros.

Table 8. The biggest foreign investors in Macedonia (2006-2014)

FDIs in the Republic of Macedonia by countries (million US Dollars)						
Year	**2006**	**2008**	**2010**	**2011**	**2012**	**2014**
Austria	161,0400	14,48	117,6987	39,14	48,1422	94,9683
Cyprus	33,3084	4,49	6,2238	12,64	15,5472	4,5387
The Netherlands	18,0456	37,11	35,5224	84,01	103,3323	94,7469
Slovenia	12,8812	85,56	97,4529	184,87	227,3901	40,9467
Turkey	4,7960	2,75	-1,8450	6,47	7,9581	92,3298
Italy	5,9728	9,35	5,9286	4,10	5,0430	9,9261
Greece	50,0309	61,16	8,2656	-76,88	-94,5624	2,2632
USA	7,5915	2,19	11,8572	2,37	2,9151	2,1525
Croatia	7,4012	32,73	22,0416	7,10	8,7330	8,0811
Germany	0,7008	12,65	4,9323	4,18	5,1414	8,3640
France	0,0205	39,33	-2,4969	-1,56	-1,9188	2,0418

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia,* 2014, p. 56

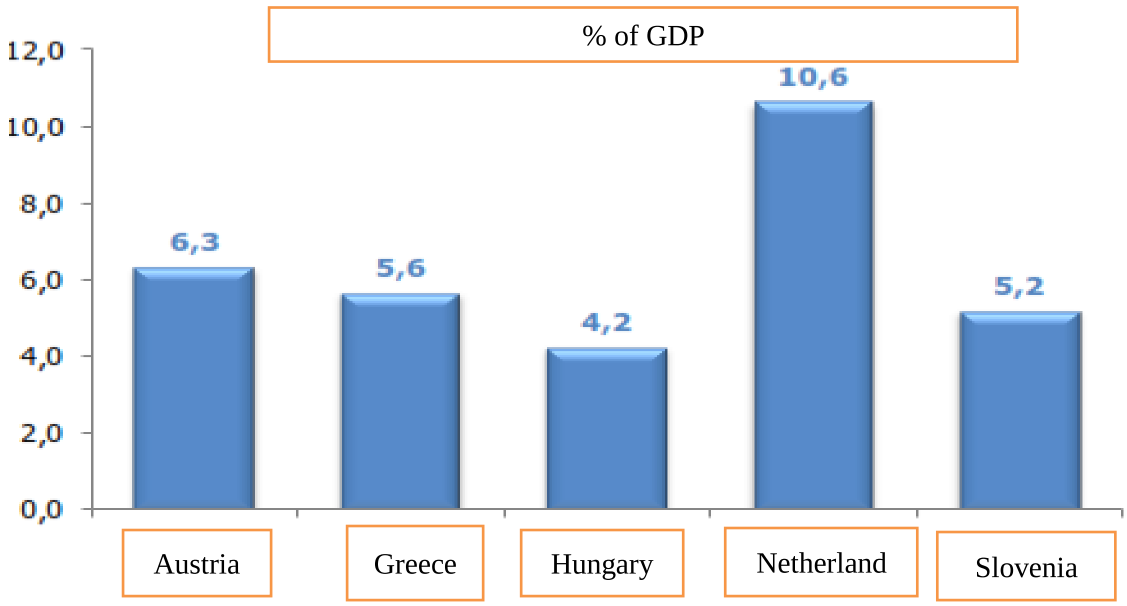
If we analyze FDIs by geographic origin, we can say that the biggest foreign investors in Macedonia are the largest foreign investors from Europe, as shown in Table 8.

In 2008, the largest foreign investor in Macedonia was Greece, with a total share of 15.18%. In 2009, Greece took the fourth place with a 12.11% share in total investments in Macedonia. In 2009, the Netherlands was on the first place with 16.67% of total foreign investments in Macedonia which, in 2008, was on the second place by the amount of capital invested in Macedonia, i.e. with 14.67% of total foreign investments. In 2010, the Netherlands was again ranked first by the percentage share in foreign investments in Macedonia, with 16.57% of total investment. It remained first until 2012. In 2012, the Netherlands participated with 20.90% of total foreign investments in Macedonia (NBRM, 2014).

Interesting thing regarding investments in Macedonia in 2011 by country of origin is that only 19.47% of total investments came from other smaller countries and the rest were investments from the largest countries.

Biggest investors in Macedonia in 2013 were: Austria, Greece, Hungary, the Netherlands and Slovenia, as shown in Figure 13.

Figure 13. The Five Most Important Foreign Investors in 2013 in Macedonia
(% of GDP)



Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2013, p. 66

Table 9. The Biggest Foreign Investors in the Republic of Macedonia by Countries for 2008-2012

Stock of direct investments in the Republic of Macedonia - by country - 2008 – 2012											
											in million Euros
	2008		**2009**		**2010 1)**		**2011 1)**		**2012**		**Country**
Code	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	
008	23.90	0.81	27.90	0.89	37.32	1.12	36.47	0.99	28.02	0.75	Albania
036	2.40	0.08	2.36	0.08	2.42	0.07	2.03	0.06	2.07	0.06	Australia
040	334.58	11.27	362.58	11.54	371.70	11.19	416.76	11.28	441.62	11.79	Austria
056	1.17	0.04	1.20	0.04	1.17	0.04	1.93	0.05	16.86	0.45	Belgium
070	1.82	0.06	2.54	0.08	3.39	0.10	4.51	0.12	5.65	0.15	Bosnia and Herzegovina
092	51.31	1.73	58.11	1.85	67.17	2.02	94.33	2.55	81.76	2.18	British Virgin Islands
100	86.50	2.91	92.29	2.94	117.32	3.53	120.29	3.26	142.79	3.81	Bulgaria
124	3.16	0.11	2.85	0.09	4.13	0.12	3.88	0.10	6.67	0.18	Canada
136	-1.00	-0.03	-1.00	-0.03	-1.31	-0.04	-2.99	-0.08	-3.13	-0.08	Cayman Islands
191	53.23	1.79	55.54	1.77	72.11	2.17	77.56	2.10	85.45	2.28	Croatia
196	34.90	1.18	47.93	1.53	46.21	1.39	48.77	1.32	57.67	1.54	Cyprus
208	1.27	0.04	1.45	0.05	1.81	0.05	2.66	0.07	4.59	0.12	Denmark
250	13.04	0.44	26.15	0.83	129.50	3.90	131.51	3.56	134.81	3.60	France
276	66.23	2.23	61.98	1.97	71.44	2.15	86.83	2.35	83.94	2.24	Germany
300	450.70	15.18	380.31	12.11	431.15	12.98	442.93	11.99	436.22	11.64	Greece
348	410.56	13.83	388.75	12.38	346.85	10.44	346.57	9.38	346.43	9.25	Hungary
352	12.15	0.41	11.62	0.37	3.26	0.10	2.40	0.06	1.09	0.03	Iceland
376	4.11	0.14	3.99	0.13	4.39	0.13	1.48	0.04	2.34	0.06	Israel
380	55.54	1.87	55.85	1.78	58.55	1.76	65.16	1.76	62.72	1.67	Italy
438	2.05	0.07	1.65	0.05	17.79	0.54	22.63	0.61	24.34	0.65	Liechtenstein
442	69.14	2.33	62.03	1.97	16.12	0.49	15.42	0.42	18.84	0.50	Luxembourg
528	435.57	14.67	523.56	16.67	550.43	16.57	740.39	20.04	783.00	20.90	Netherlands
591	11.12	0.37	10.58	0.34	12.27	0.37	10.43	0.28	10.04	0.27	Panama
616	0.50	0.02	0.41	0.01	0.40	0.01	9.28	0.25	6.90	0.18	Poland
642	-0.26	-0.01	0.87	0.03	1.87	0.06	1.79	0.05	1.37	0.04	Romania
643	1.32	0.04	1.22	0.04	4.44	0.13	11.23	0.30	11.48	0.31	Russia
670	62.14	2.09	48.02	1.53	94.59	2.85	139.16	3.77	112.86	3.01	Saint Vincent and the Grenadines
688	62.31	2.10	83.72	2.67	80.33	2.42	70.92	1.92	77.67	2.07	Serbia
705	262.78	8.85	391.21	12.45	398.70	12.00	405.66	10.98	363.25	9.70	Slovenia
752	-1.76	-0.06	3.56	0.11	5.15	0.16	23.38	0.63	20.97	0.56	Sweden
756	200.73	6.76	202.07	6.43	153.02	4.61	126.40	3.42	89.60	2.39	Switzerland
760									11.90	0.32	Syria
792	42.98	1.45	49.74	1.58	48.29	1.45	117.23	3.17	145.32	3.88	Turkey
804	0.89	0.03	0.65	0.02	-14.03	-0.42	-18.85	-0.51	-17.33	-0.46	Ukraine
826	114.83	3.87	76.73	2.44	102.54	3.09	48.07	1.30	38.98	1.04	UK
840	47.79	1.61	48.78	1.55	37.43	1.13	42.78	1.16	59.54	1.59	USA
964	30.76	1.04	36.52	1.16	20.92	0.63	17.09	0.46	7.52	0.20	EBRD

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2013, p. 60

Austrian investments amounted 6.3% of GDP in Macedonia, 5.6% of GDP accounted Greek investments, then 4.2% of GDP were investments from Hungary, 5.2% of GDP was covered by investments of Slovenia and the largest percentage share of GDP went to investments of the Netherlands, with 10.6% of GDP in Macedonia, which means that the Netherlands retained the top position again in 2013 as the biggest investor in Macedonia. According to the data of the National Bank of the Republic of Macedonia (2013), in the first nine months of 2012, the highest inflow of investments came from Austria with more than 56 million Euros, followed by Turkey with more than 11.7 million Euros, then Belgium and Germany which invested about 9 million Euros. However, 2012 was characterized by a massive outflow of capital by foreign investors, which caused a drop in the level of foreign investments. The largest outflow of capital during this period, in the amount of 25.6 million Euros was made by the Slovenian investors, followed by St. Vincent and the Grenadines, with outflow of capital of about 14 million Euros, Greece, the Netherlands and the UK which retreated about 12 million Euros (NBRM, 2013).

3.5 Benefits of FDIs in the Republic of Macedonia

Although FDIs entail engagement of huge resources, the presence in foreign markets is coupled with the risk of international operations. However, FDIs enable the companies to achieve global scale efficiency (Popovski, 2010). FDIs have positive impact on the host country: there is transfer of technology and capital, new jobs are opened. MNCs, with their FDIs, have positive impact in Macedonia, as a country in transition (Dunning, 1993).

The countries in transition made use of FDIs in the transition to market economies, i.e. in the privatization, and gained new and modern technology, modern management. Unlike the countries in transition, the process of privatization in Macedonia took place with the sale of state-owned enterprises, mostly to employees or managers of those enterprises. For that reason, the inflow of FDIs in the period from 1990 to 2000 was very small. The first FDIs were made in the companies that worked successfully in the period before and after the privatization. The managers, who purchased these companies, sold the controlling stake to foreign investors, whereas the entry of foreign capital in Macedonia had positive impact (Popovski 2010).

There are also examples of foreign investments in loss-making companies, which would have collapsed if they were not purchased by foreign investors. Such examples include: Feni, Zelezara, Jugohrom. Their sale enabled entry of foreign capital in Macedonia, restructuring of these companies, entry of modern working technology, generating revenues. Thousands of people would have lost their jobs if these enterprises were closed down. The sale of ADOR Macedonia (QBE) caused a significant entry of new technology in the insurance sector in Macedonia. The sale of Macedonian Telecommunications was the largest foreign investment by 2001 which resulted in new and modern investments in the telecommunications sector (Popovski, 2010).

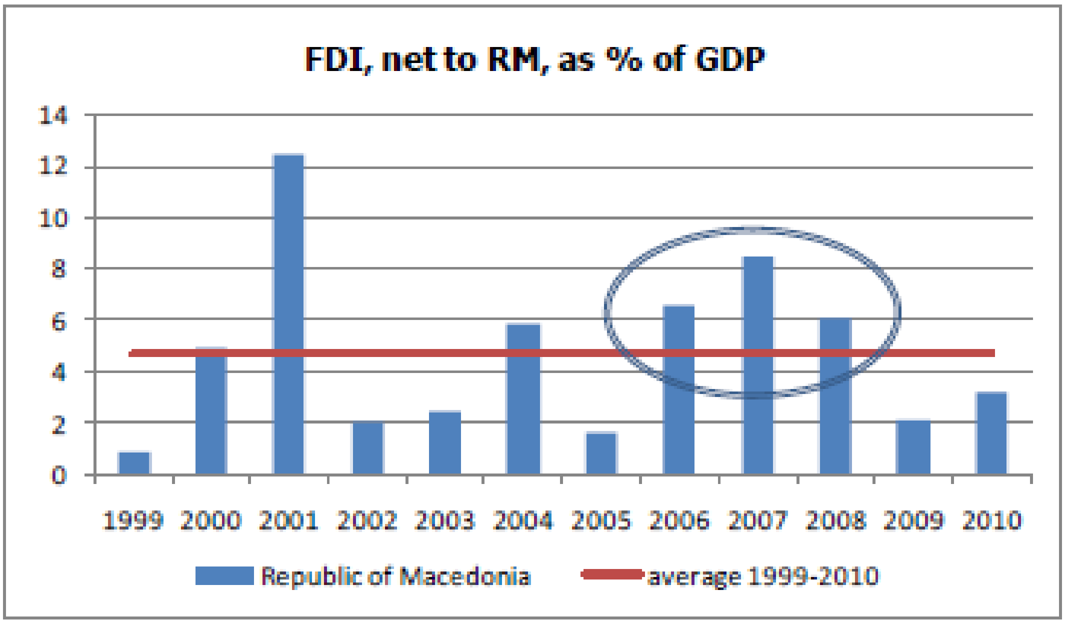
In the course of the privatization period of the Macedonian enterprises, the number of Greenfield investments was very small; most FDIs occurred in the form of acquisitions or mergers with existing enterprises. After that period, there was an increase of Greenfield investments, followed by a revival of the Macedonian economy.

Despite the low level, FDIs had huge impact in Macedonia as a small transition country, with modest development. Enterprise restructuring, transfer of modern technology, modernization of production, management expertise contributed to the increase of competitiveness of the Macedonian companies on foreign markets.

3.5.1 Impact of FDIs on GDP

The average net inflows of FDIs in Macedonia in the period 1999-2010 was around 4% of GDP, i.e. less than net inflows of FDIs in other countries in transition (Popovski, 2010). This is explained by the fact that investors, in making the choice of country in which to invest, considered a number of factors: access to sea, country's development, market size, labor force, overall infrastructure, legislation, etc. Net inflows of FDIs in Macedonia in the period 2006-2008 had the highest share in GDP, thus a greater growth in GDP is recorded in these years, as shown in Figure 14.

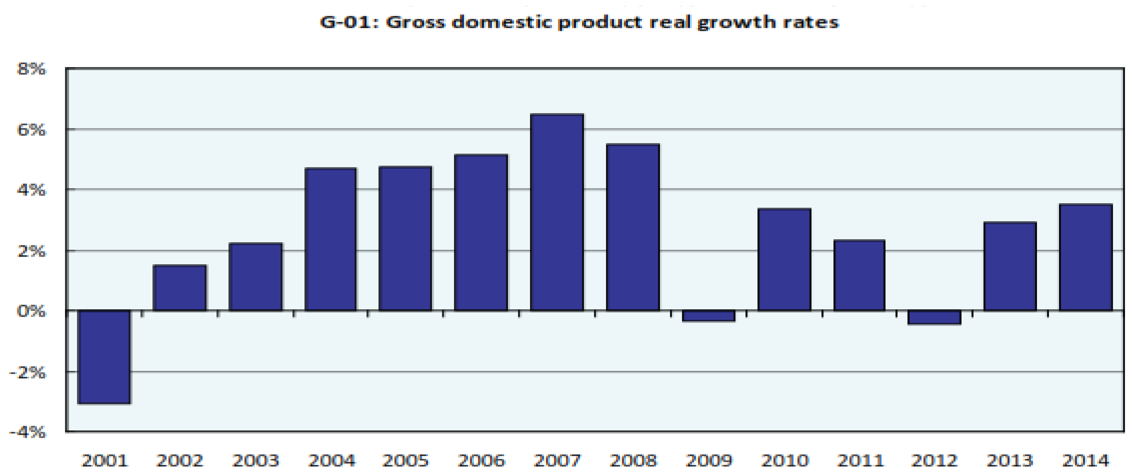
Figure 14. Net FDIs in Macedonia as % of GDP between 1999-2010



Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2011, p. 32.

Following the global crisis of 2008, Macedonia's economy started strengthening and a growth in GDP was recorded. In 2001, a decline in GDP of -3.1% was recorded due to the armed conflict in Macedonia. The inflow of FDIs in Macedonia that year exceeded 12% of GDP. Then, the GDP rate marked growth until 2007, and reached a growth rate of 6.5%, which is the highest rate of GDP growth. With the global crisis that began in 2007, a decline in GDP growth was recorded of 1% in 2008, compared to 2007. In 2009, GDP achieved a negative growth rate of -0.4%. However, after this year, there was stabilization and strengthening of the economy and revival of the economic activity in Macedonia, as it is shown in Figure 15 (Popovski, 2010).

Figure 15. GDP Real Growth Rates in % between 2001-2014



Source: State Statistical Office, *Annual Report*, 2015, p.23

Table 10 shows Macedonia's GDP growth rates and FDIs value in the period from 2006 till 2012.

Table 10. GDP Growth Rates and FDI Value in Macedonia between 2006-2012 (in % and million Euros)

GDP growth rates (in %)						
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
5.1	6.5	5.5	-0.4	3.4	2.3	-0.5
FDI (acquisitions, mergers and Greenfield investments, in million Euros)						
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1,949,838,233.0	2,359,206,458.0	2,540,744,677.0	2,610,329,082.0	2,782,015,955.0	3,230,882,010.0	3,270,131,997.0

Source: NBRM, *Financial Report of the Central Bank of the Republic of Macedonia*, 2013, p. 82

In 2006, the growth rate of GDP was 5.1%, while in 2007 the growth rate of GDP was 6.5%. In those two years, FDIs also grew continuously. In 2008, FDIs in Macedonia marked an increase of 409,368,225 Euros compared to the previous year, and GDP in 2008 marked a decline in the growth rate by 1% compared to 2007. FDIs in 2009, according to the data from the National Bank, marked an increase and the growth rate of GDP was -0.4%. In the coming years, FDIs in Macedonia marked an increase, but GDP had no continuous growth rate. In 2012, GDP again had a negative growth rate of -0.5%, while FDIs reached the highest value, the value of 3.270.131.997 Euros. It can be noted that the growth of FDIs in Macedonia was not followed by a permanent increase in the growth rate of GDP, and thus it can be concluded that, although FDIs affect GDP, they, however, do not move in the same direction (NBRM, 2013). The World Bank predicted a growth of the economic activity in Macedonia by 4.2% on average in the period 2015-2017. In 2015, it predicted an economic growth of 4%, in 2016 of 4.2%, and in 2017 a growth rate of 4.5%. The most important indicator of economic growth is GDP. The rate of inflation in 2015-2016, according to the World Bank, is predicted to be 2%, and in 2016-2017 it is predicted to be 2.2%. The increase in economic growth will have a positive impact on employment and living standards in Macedonia (World Bank, 2015).

3.5.2 Impact of FDIs on employment

FDIs have a well-known positive impact on employment in the country in which they are participating. In 2006, the unemployment rate was at a record high level of 36% and the value of FDIs totaled 424 million US Dollars. Then followed an increase of FDIs in Macedonia of 275.6 million US Dollars which was followed by a decline in the unemployment rate of 1.1%. In 2008, the unemployment rate again marked a decline by 1.1% and reached the rate of 33.8%, but in the same year, because of the global economic crisis, there was a decrease in the value of FDIs. In 2009, the unemployment rate was 32.2%; in this year, FDIs marked an enormous decline and a value of 185.5 million US Dollars. It can be noted that the decline of FDIs in Macedonia was not followed by a rise in unemployment. In 2010, the unemployment rate was 32.1%, in 2011 - 31.4%, in 2012 it reached the rate of 31%. In 2013, the unemployment rate reached the lowest level of 28% and FDIs reached the value of 261.4 million US Dollars. In the first quarter of 2015, FDIs amounted 74.2 million US Dollars and the unemployment rate was 27.3% (SSO, 2015). As shown in Table 11, the inflow of FDIs in Macedonia had a positive impact on employment, i.e. on the fall of unemployment rate. By increasing the value of FDIs, there is a decrease in the unemployment rate, despite the fact that the decrease in FDIs does not cause an increase in unemployment.

FDIs have greater impact on employment in the country in case of Greenfield investments, when new factories are opened and new workers are employed. In case of acquisitions and mergers, there may be restructuring of the company and dismissal of some of the workers in the first instance. Macedonia is characterized by a high rate of unemployment, which in

2001 reached 38.9%. With the inflow of FDIs (although the share of FDIs in GDP was relatively small), a number of persons were employed and thereby unemployment was reduced. The State Statistical Office (2008) provides information on the number of employees in business entities with foreign direct investment by activities, as it is shown in Table 12.

Table 11. Unemployment Rate (in %) and Value of FDIs in Macedonia between 2006-2015

Unemployment rate (in %) /3											
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Quarter 1, 2015**	**Quarter 2, 2015**	**Quarter 3, 2015**
36.0	**34.9**	**33.8**	**32.2**	**32.1**	**31.4**	**31.0**	**29.0**	**28.0**	**27.3**	**/**	**N/A**
Direct investments –net (in million US Dollars) /9, 15											
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Quarter 1, 2015**	**Quarter 2, 2015**	**Quarter 3, 2015**
424.0	**700.2**	**600.5**	**185.5**	**206.9**	**473.9**	**165.5**	**305.0**	**261.4**	**74.2**	**49.1**	**N/A**

Source: State Statistical Office of RM, *Annual Report*, 2015, p. 39

Table 12. Number of Employees in Business Entities with Foreign Direct Investment by Activities, 2003-2007

БРОЈ НА ВРАБОТЕНИ ВО ДЕЛОВНИТЕ СУБЈЕКТИ СО СТРАНСКИ ДИРЕКТНИ ИНВЕСТИЦИИ, ПО ДЕЈНОСТИ, 2003-2007

THE NUMBER OF EMPLOYEES IN THE BUSINESS ENTITIES WITH FOREIGN DIRECT INVESTMENT, BY ACTIVITIES, 2003-2007

НКД сек-тор	Назив	2003	2004	2005	2006	2007	NACE sector	Description
	ВКУПНО	**21 577**	**23 278**	**26 516**	**33 279**	**38 840**		**TOTAL**
А	Земјоделство, лов и шумарство	89	335	528	689	790	A	Agriculture, hunting and forestry
Б	Рибарство	3	0	0	0	0	B	Fishing
В	Вадење на руди и камен	551	482	1 217	1 865	1 670	C	Mining and quarrying
Г	Преработувачка индустрија	11 033	11 894	14 880	16 428	16 103	D	Manufacturing
Д	Снабдување со електрична енергија, гас и вода	0	0	0	3 529	3 151	E	Electricity, gas and water supply
Ѓ	Градежништво	94	167	141	219	3 195	F	Construction
Е	Трговија на големо и трговија на мало	2 281	2 130	1 888	2 377	2 438	G	Wholesale and retail trade
Ж	Хотели и ресторани	299	447	445	531	1 313	H	Hotels and restaurants
З	Сообраќај, складирање и врски	3 859	3 855	3 194	2 520	2 982	I	Transport, storage and communication
Ѕ	Финансиско посредување	2 816	2 451	2 519	2 865	4 837	J	Financial intermediation
И	Активности во врска со недвижен имот, изнајмување и деловни активности	298	1 201	1 349	1 666	1 597	K	Real estate, renting and business activities
Ј	Јавна управа и одбрана, задолжителна социјална заштита	0	0	19	35	0	L	Public administration and defence; compulsory social security
К	Образование	173	210	236	256	263	M	Education
Л	Здравство и социјална работа	1	6	68	75	123	N	Health and social work
Љ	Други комунални, општи и лични услужни активности	80	100	32	224	378	O	Other community, social and personal service activities

Source: State Statistical Office of RM, *Annual Report*, 2008, p. 12

According to the data of the State Statistical Office (2008), as it is shown in Table 13, in the period 2002-2008, the number of employees in enterprises with foreign capital in Macedonia increased by 12,088 persons. In 2003, the total number of employees in FDIs was 21,577, whereas the largest number of employees was in the manufacturing industry. In 2004, employment in FDIs increased by 1,701 persons and amounted 23,278 persons. The number of employees in 2005 in FDIs in Macedonia amounted 26,516 persons in 2006, it amounted 33,279 persons, and in 2007 - 38,840 persons. With the increase of the inflow of FDIs in Macedonia, the number of employees in FDIs grew and unemployment declined.

3.5.3 Impact of FDIs on international business

The value of exports and imports of goods did not have a continuous growth rate. As shown in Table 13, in 2006, the value of exports was 1,917.5 million Euros and the value of imports was 2,979.7 million Euros, whereas trade balance marked a negative growth rate of 1,062.2 million Euros. With the increase in exports of 560 million Euros and the increase in imports of 854 million Euros, the trade balance marked the value of -1,356.5 million Euros in 2007.

Table 13. Value of Exports, Imports, Trade Balance of Macedonia between 2006-2012 (in million Euros)

Value of exports (in million Euros)						
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1,917.5	**2,477.1**	**2,697.6**	**1,937.0**	**2,534.9**	**3,214.9**	**3,124.0**
Value of imports (in million Euros)						
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
2,979.7	**3,833.6**	**4,664.4**	**3,636.8**	**4,137.1**	**5,052.9**	**5,070.6**
Trade balance (in million Euros)						
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
-1,062.2	**-1,356.5**	**-1,966.9**	**-1,699.8**	**-1,602.2**	**-1,838.0**	**-1,946.7**
Value of FDIs (acquisitions, mergers and Greenfield investments) (in Euros)						
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1,949,838,233.0	**2,359,206,458.0**	**2,540,744,667.0**	**2,610,329,082.0**	**2,782,015,955.0**	**3,230,882,010.0**	**3,270,131,997.0**

Source: State Statistical Office of RM, 2013, p. 69

The negative value of the trade balance continued in the following years. In 2012, the value of FDIs reached the highest amount, and thus the value of exports amounted 3,124.9 million Euros, and the import value was 5,070.6 million Euros. The deficit in the trade balance was -1,946.7 million Euros (SSO, 2013).

With the inflow of foreign investments, there is primarily an input of capital, i.e. an increase in the value of imports, then, with the commencement of the work, there is export of goods which results in increase in the value of exports and positive impact on the trade balance, i.e. reduction of the balance of payments deficit.

3.5.4 Impact of FDIs on R&D and innovation

Technology is a vital source of economic growth, or, in other words, economic growth and technological development are inseparable. However, especially important for technological development are the intangible factors, such as science, education, expertise of staff, scope of information, but certainly most important are the assets. On the other hand, materialization of achievements in science and practical implementation of technological developments in production processes in all other spheres of society are done through investments. In addition, FDIs are important factor for technological development, or as Dunning (1993, p. 79) says, "*through FDIs, managerial or technical skills are transferred in the management and, on the other hand, there is a spread of knowledge or entrepreneurship in the form of research and development, production technology, marketing knowledge, managerial skills, etc*."

New technology and processes are being introduced through gradual shift of resource and innovation capabilities by those companies which are striving to be competitive and achieve competitive advantage on the international market. They use various modes to transfer their innovation to a foreign country, such as licensing, FDIs or imitation. As already discussed, in case of FDIs, investors opt for constructing their own facilities to perform their operations in the country they have decided to invest so that they can manufacture and sell their products on the local market in the host country or the neighboring markets. Hence, there is interaction between FDIs and innovation, in which it is important to see whether the companies owned by foreign investors influence innovation or innovation influences companies owned by foreign investors. Notwithstanding, availability of resource and incentives for research and development (R&D) are most important for innovation in the companies owned by foreign investors (World Bank, 2013).

Foreign investors usually calculate the profit in advance in order to be able to cover the costs for innovation. Generally, FDIs are characterized by increased profits, reduced structure, less inefficiency in the supply chain, which makes foreign investors interested in using these benefits to engage more in innovation. Glass and Saggi (1999), in their study, indicate that there are markets with extensive imitation practices in which there is room for 'zero innovation' by foreign investors. Yet, there are individuals who possess skills, are well educated and trained, capable of using specific knowledge and technology in a particular branch, who, by using their experience gained from the work in the FDI, decide to venture independently and resort to a start-up, as a form of newly emerged and fast-growing business.

There was a fairly slow technological development in the Republic of Macedonia, mostly using traditional technologies and lower technical performances. Foreign investments in the Republic of Macedonia created conditions for technological progress in economy, for restructuring of production processes with higher forms of processing, for substitution of traditional technologies and introduction of information technologies, flexible technologies, technologies of new materials, biotechnology, etc. (World Bank, 2013).

Macedonia is indeed facing major challenges in the R&D policy it implements which, inter alia, include: insufficient infrastructure facilities and institutional infrastructure capacities, underdeveloped mechanisms for transferring knowledge and research in business sector, uneven distribution of researchers by sectors, low investment in applied research and innovation and low level of private investment in R&D, as shown in Figure 16, disproportionately low number of young researches, and unaccounted brain drain (World Bank, 2013)

Figure 16. Trends in R&D funding (in MKD Denars / EUR and %)

	2008	2009	2010	2011	2012	2013
Total public R&D funding from MoES	370.500.000 ? 6 mil EUR 22%	223.998.000 ?3,6 mil EUR 20%	179.278.000 ?2,9 mil EUR	254,718.000 ?4,1 mil EUR	796.342.000 ?5,9 mil EUR	1.170.000.000 ?8,3 mil EUR
Funding allocated to HEIs	8%	7%				
Private sector funding	4%	4%				
Government budgetoutlays on R&D as share of total general government expenditure (%)	10%	9%				

Source: World Bank, *Country paper series: Former Yugoslav Republic of Macedonia, Western Balkans Regional R&D strategy for innovation*, 2013, p.14

The Republic of Macedonia, in order to create conditions for stable and sustainable economic growth and development, must use foreign capital as additional accumulation that will be used for restructuring of the production processes, raising the technical and technological level of those production processes, increasing the efficiency of economy in general, which will contribute to the growth of gross domestic product and to the possibility the Macedonian economy to integrate into the European and global trends. Revitalization and stimulation of technological progress will intensify the transition from extensive to intensive development (World Bank, 2013).

A general opinion is that the development of the Republic of Macedonia depends on the inflow of foreign capital, whereas particularly important is the inflow of FDIs in the propulsive industries aimed at disseminating new and high technologies and appropriate highly professional knowledge, modernization of technology and production and their rapid restructuring in traditional sectors, as well as introduction of new technologies and knowledge in the service sector.

However, as outlined in the previous sections of this paper, the indicators show that the level of FDIs as a percentage of GDP in the Republic of Macedonia is still low and the commitment of the Republic of Macedonia is fully justified to improve the investment climate and policies to attract FDIs.

3.6 The Regulatory Framework of the Republic of Macedonia for FDIs

Since its independence, Macedonia has been making efforts to adopt a regulatory framework favorable to foreign investors. The Law on Foreign Investments was enacted in 1993. Besides this Law, many other laws were adopted, including: the banking law, the customs code, the tax law, the law on privatization, etc. Because of the low inflow of FDIs, this law was amended in 1996. During its validity period, in the period 1993-1996, the cumulative value of FDIs was 35.5 million US Dollars (SSO, 2008).

In 1996, the Law on Trade Companies was adopted, according to which: foreign investors may invest in all industries and sectors under the same laws which apply to domestic companies. Upon entry into force of this Law, from 1996 until 2002, the inflow of foreign investments increased and reached the value of 838.8 million US Dollars, but this figure was still insufficient. A number of reasons affected the value of FDIs in Macedonia, such as the 2001 armed conflict and other security and political reasons.

In 2002, a new Law on Trade Companies was adopted which specifies the conditions under which a company can be founded in Macedonia or shares can be acquired by a foreign individual or legal entity. Despite these laws, other laws were also adopted in order to attract the largest possible number of foreign investors, but also their interests to be protected. The following laws were adopted: the Customs Code, the Law on Expropriation, the Law on Insurance, the Law on Concession, the Law on Transformation of Enterprises with Social Capital, the Law on Copyright, Ownership, Labor and other.

Technological Industrial Development Zones (hereinafter: TIDZ) were established where foreign investors receive many advantages, including (Directorate for TIDZ, 2014):

- Taxes, customs and other incentives: in the TIDZ, investors are exempt from paying the income tax and personal income tax for a period of 10 years, as shown in Figure 15 and Figure 16.
- Infrastructure: investors are exempt from paying the fee for the construction land to the local self-governments; they are also exempt from paying the connection to the gas pipeline, water supply and sewerage network.
- Land: the land is available under long-term lease for a period of up to 99 years.
- Costs and registration: investors are exempt from paying the costs for registration and obtaining a permit to operate in Macedonia.

- Subsidies: the Government of Macedonia may participate with up to 500,000 Euros in the construction cost of the investors in the TIDZ, depending on the number of new jobs opened with the foreign investment and the value of the investment.

Custom benefits and incentives are given in Table 14. Rates out of the TIDZ for raw materials range from 0 to 15%, and for equipment from 5 to 20%. Rates in the TIDS are 0%.

Table 14. Customs (Benefits and Incentives) to Foreign Investors

CUSTOMS		
Goods	Rates out of the TIDZ	Rates in the TIDZ
Raw materials	0%-15%	0%
Equipment	5%-20%	0%

Source: Technological-Industrial Development Zones, *Annual Report*, 2014, p.55

Table 15 shows taxes to foreign investors as rates in the TIDZ and rates out of the TIDZ.

Table 15. Taxes (Benefits and Incentives) to Foreign Investors

TAXES		
Goods	Rates out of the TIDZ	Rates in the TIDZ
Value added tax	18%	0%
Income tax	10%	0% for a period of 10 years
Personal income tax	10%	0% for a period of 10 years

Source: Technological-Industrial Development Zones, *Annual Report*, 2014, p. 55

In order to increase the interest of foreign investors to invest their capital in the Republic of Macedonia, numerous macroeconomic policies and reforms are being implemented including tax reform, protection of property rights and contract enforcement, as well as improvements in the functioning of the legislative, judicial and executive power and in the efficiency of the administration. The growth of foreign investments in the recent years is a direct confirmation of the effectiveness of the policy of the Government of the Republic of Macedonia, which, through a series of measures and policies, contributed to improving the business climate, which in turn resulted in attracting new FDIs.

4 ANALYSIS OF FDIs IN WESTERN MACEDONIA

The Pelagonia region offers a favorable business environment and thus is contributing to the increase in the investments in this region, regardless of whether it is domestic or foreign investments. According to the level of economic development of his region, it is ranked on the third place in Macedonia, whereas the first place is reserved for the Skopje region and the second for the southeast region. About 13% of total GDP of Macedonia is generated in this region (NBRM, 2014). It is out of these reasons that I decided to carry out the research exactly in this region.

4.1 General Overview of the Presence of MNCs in the Western Part of Macedonia

Investment opportunities in the western part of Macedonia are immense and favorable. The following industrial zones have been established: “Zhabeni” near Bitola and “Alinci” near Prilep. Owing to the good opportunities in the Pelagonia region, a large number of foreign MNCs have decided to invest here.

4.1.1 MNCs in the Prilep region

In the Prilep region, which is part of the Pelagonia region, several MNCs have invested by applying a variety of strategies. For example, the Prilep Brewery (*Mac:* AD Prilepska Pivarnica) produces and sells products of Pepsi Co. Company. With the agreement for manufacturing of licensed products (licensing as a strategy for performance of Pepsi Co.), signed in 1979, the Prilep Brewery teamed up with Pepsi Co Company. The Prilep Brewery produces, distributes and sells 6 global products of Pepsi Co. in Macedonia (Company Annual Report, 2015):

- Pepsi Regular.
- Pepsi Twist.
- Pepsi Max.
- Mirinda Orange.
- Mirinda Lemon.
- 7 Up.

Tus, is a Slovenian Greenfield investment in the Prilep region which, unfortunately, has not started its operations yet. Gentherm is under construction in the industrial zone Alinci. Gentherm is a US company from Detroit which produces climate control systems for car seats. Indeed, it is expected to employ about 1,000 persons.

The Tobacco Company Tutunski Kombinat AD Prilep is a company in the tobacco industry that deals with purchase and processing of tobacco, production of cigarettes, production of cigarette stubs, various types of adhesives for the tobacco industry. Famous cigarette brands are: VIP, BRAND, EUROPA, FILTER ORIENTAL, MACEDONIA. It was established back in 1873. With the entry of Philip Morris International Management, a strategic partnership agreement was signed in 2013, where 51% of capital share belongs to the Philip Morris International Management while the Tobacco Company: Tutunski Kombinat AD Prilep, has the remaining 49%. The strategic partnership agreement was expected to provide direct placement of significant amounts of Macedonian oriental tobacco for the needs of Philip Morris.[1] The strategic partnership was intended to provide funds for stabilization of the Tobacco Company, Tutunski Kombinat AD Prilep and to turn it into a profitable company (Company Annual Report, 2015).

Comfy Angel is a company with British-Macedonian capital, specialized in production and sale of filled beddings. The primary products of this factory are:

- Pillows.
- Quilts.
- Throw-overs.
- Sleeping bags.
- Mattress covers.

It was established in 2004; the UK partner is Comfy Quilts LTD which was founded in 1971. Currently it is operating with about 1,000 employees, covering an area of 22,500 square meters. It exports to France, United Kingdom, Greece, Malta, Germany, Belgium, Netherlands, Croatia, Sweden, Denmark, Finland, Brazil, Kuwait, Estonia, Romania and Italy (Company Annual Report, 2015).

Vasidora Fashion is a Greek company that deals with production and sales of clothing and fashion accessories. It runs about a dozen stores throughout Macedonia.

The Marble Company, Mermeren Kombinat – Prilep, was founded in 1946 and is a world leader for exploitation and processing of marble. 88.4% of capital share is owned by the Dutch Investment Fund NBGI (AFIEP, 2015).

4.1.2 MNCs in the Bitola region

There are also several MNCs in the Bitola region which carry out different activities. The best known FDI which is located in the industrial zone, Zhabeni is Kromberg & Schubert. It is a Greenfield investment, which started its activities in early 2013. Initially it employed around 900 persons, and, by the end of 2015, the total number of employed persons, according to the company's projections, was expected to reach 4,000 persons (AFIEP, 2015).

IMB Mlekara AD Bitola is a company operating in the dairy industry in Macedonia. This dairy was formed in 1952, which, over its existence of more than 50-years, was constantly promoted and became worthy of joining the biggest dairy group Danube Foods Group (at the end of 2007) and thus became part of the Salford Investment Fund (Company Annual Report, 2015).

[1] Information available on the web page of the Tobacco Company "Tutunski Kombinat AD Prilep", http://tkprilep.com.mk/?page_id=387 . as of 18.07.2016

The textile company, Rodonin Bitola, is also a foreign investment with Greek capital and is considered one of the largest textile companies in the region, which employs about 550 persons (AFIEP, 2014).

According to the Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (2014), Socotab AD Bitola is a joint-stock company which deals with purchase, processing and sale of tobacco. Socotab Frana S.A- Geneve is the major shareholder in this company and holds 97.20% of total shares of Socotab.

4.1.3 MNCs in the Demir Hisar region

There is one investment by a MNC in the Demir Hisar region, namely in the village Slepce. It is the Russian ballet shoes factory, Grishko. It is a Greenfield investment that was expected to employ initially 80 persons and later another 200 persons (TIDZ, 2014).

4.1.4 MNCs in the Resen region

According to the Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (2014), two MNCs have invested in Resen: the Aluminum and Zinc Foundry and Swisslion. The Aluminum and Zinc Foundry LLC Resen is a company that deals with production of aluminum and zinc castings by using a high pressure casting technology. The foundry continued the production program of the factory producing heating items – Algreta, but also introduced some new types of radiators in its product line.

Swisslion LLC Skopje, founded as a Greenfield investment in 1998, performs activities in import and distribution of confectionery products. The success of the operations of this company in Macedonia contributed to expanding its core business in the production of confectionery products. From then until today, 3 product lines have been introduced at the production plant in Skopje, which have a total capacity of 20 tons of final product. Swisslion LLC Skopje consolidates its capital-related companies Swisslion Mak, Swisslion Agroplod, Swisslion Agrar and Prespa Turist (Company Annual report, 2015).

4.1.5 MNCs in Makedonski Brod

In Samokov, the factory for ammunition and weapons Suvenir was reopened. The Czech company Sumbro took over the weapons factory Suvenir and re-equipped it for production of weapons. In the past, Suvenir operated with 500 employees, but, in February 2006, it was bought by Vassilios Papadopoulos, a Greek national, for 500,000 Euros, which definitely meant the end of Suvenir (AFIEP, 2014). The most valuable machinery was moved out the moment the Greek entered this factory which, until then, had been under state ownership, and therefore the contract was terminated. Five years later, Suvenir received a new owner, the Czech company Sumbro, which successfully took it over and continued the work.

4.1.6 Perception of the presence of MNCs in the western part of the Republic of Macedonia

Renowned MNCs have invested in the Pelagonia region, which have thus provided more than 5,000 jobs. As more important ones, the following should be included: the investment of Pepsi Co. in the Prilep Brewery, by concluding an agreement for manufacturing and sales of licensed products; the entry of Philip Morris in the Prilep Tobacco Company which resulted in its revival. The largest number of jobs in the Pelagonia region is provided by Kromberg & Schubert, Greenfield investment in the industrial zone Zhabeni, where 2,500 persons are currently employed. The British-Macedonian company Comfy Angel is the largest MNCs in Prilep by the number of employed persons in the Prilep region, which currently has 930 employees and is on the second place (among the companies surveyed) by the number of employees. Other significant MNC which has invested in the Pelagonia region is the Czech company, Sumbro, which re-opened the weapons factory Suvenir in Samokov, which currently has 105 employees (TIDZ, 2014).

MNCs that are analyzed in this master thesis have employed a total of 3,620 persons in the Bitola region, while in the Prilep region they have provided employment for a total of 1,510 persons; Sumbro, currently employs 105 persons in Samokov, Grishko, currently employs 72 persons in Demir Hisar, the Aluminum and Zinc Foundry, employs 35 persons. The total number of currently employed persons in MNCs in the Pelagonia region is 5,342 (TIDZ, 2014).

FDIs in the Pelagonia region are: Tus, Gentherm, Comfy Angel, Vasidora Fashion, the Marble Company Mermeren Kombinat AD Prilep, Kromberg & Schubert, IMB Mlekara AD Bitola, Rodon, Socotab AD Bitola, Grishko, Aluminum and Zinc Foundry LLC Resen, Swisslion Agroplod, Sumbro. FDIs in this region provide a total of 4,912 jobs (TIDZ, 2014).

4.2 Research Results

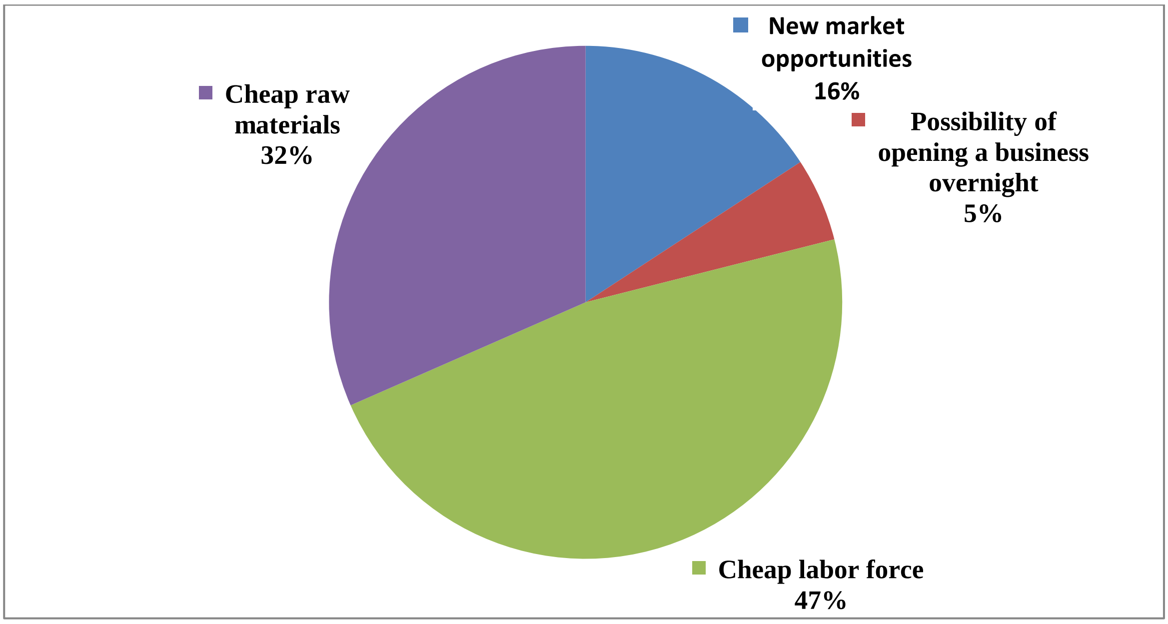
For the purpose of this Master’s Thesis, a pilot survey-based research was conducted in the above mentioned companies in the western part of the Republic of Macedonia, in the period spring/summer 2016. A total of 13 companies which have invested in this region were invited to take part in this survey, but 3 of them did not respond to the survey questions. Thus, the results are based on 10 surveyed MNCs (n=10).

The questionnaire comprised of 12 questions, most of which were closed-ended questions, with several answers offered. The first questions relate to the conditions and reasons for investing in Macedonia, while the other questions relate to the company itself. The research was carried out during the visit paid to these companies. The CEOs of the companies answered the questions in the survey. Below are the research results, presented in tables and in charts.

Question 1: What has motivated you to invest in Macedonia?

This question reveals the motive for the company's operations in Macedonia. The following results were obtained, as shown in Figure 17.

Figure 17. Structure of Motives for Investing in Macedonia (in %)



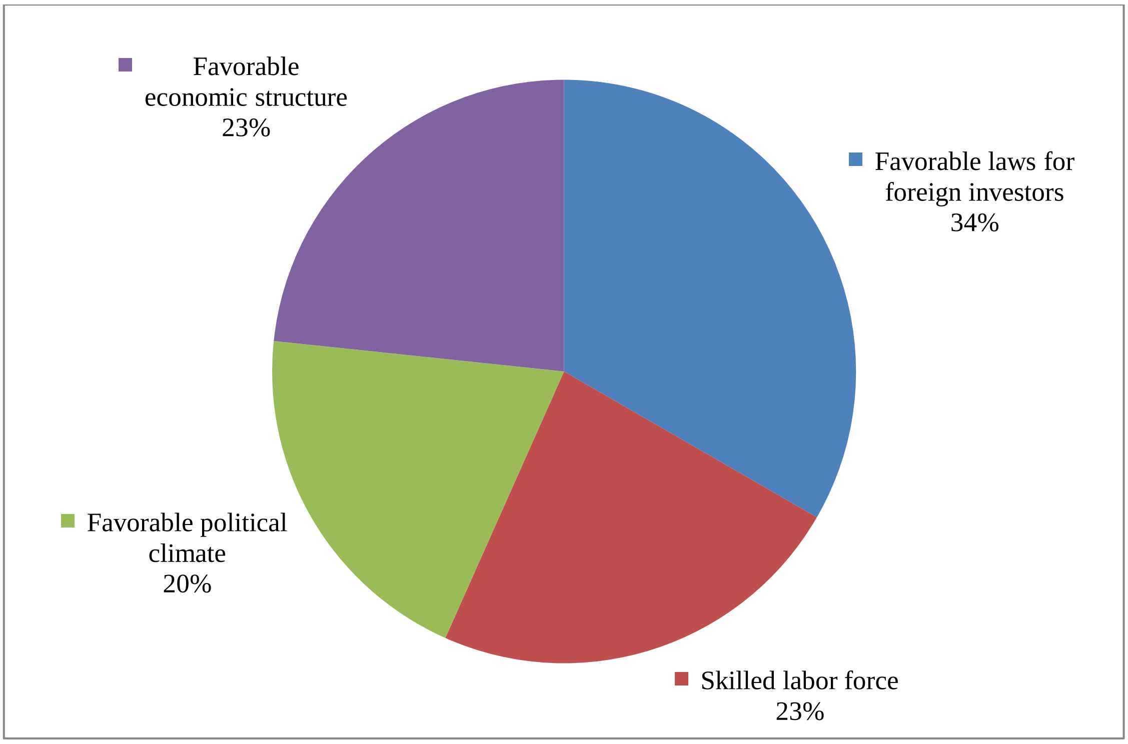
Only 3 out of the total 10 companies said that the new market opportunities in Macedonia, particularly in the Pelagonia region, were the motive for their investment, which is 16% of the surveyed companies. The possibility of opening a business overnight was the motive for investing in Macedonia for one company, or 5% of the surveyed companies. The cheap labor force was the biggest motivation for foreign investors to invest in Macedonia, where 9 out of 10 companies answered this question positively, or 47% of the surveyed companies. Cheap raw materials come next, after the cheap labor force, as a motive for investing, with 32% of the total companies, whereas 6 out of 10 companies answered that the cheap raw materials are one of the reasons for performance in Macedonia. Cheap inputs and cheap labor force have great participation in the total cost of a manufacturing company; therefore the companies seek to reduce these costs by investing in less developed countries where the lease and salaries are at a lower cost compared to their home country. One of the companies specified Macedonia's proximity to the European market, the ability for quick and timely delivery of finished products to customers and reduced transportation costs as motives for investing in Macedonia.

Question 2: Do you think that the Republic of Macedonia has:

- Favorable economic structure,
- Favorable laws for foreign investors,
- Favorable political climate, or
- Skilled labor force.

On this question, the following results were obtained, as shown in Figure 17.

Figure 18. Opinion Regarding the Benefits of Investing in Macedonia (in %)



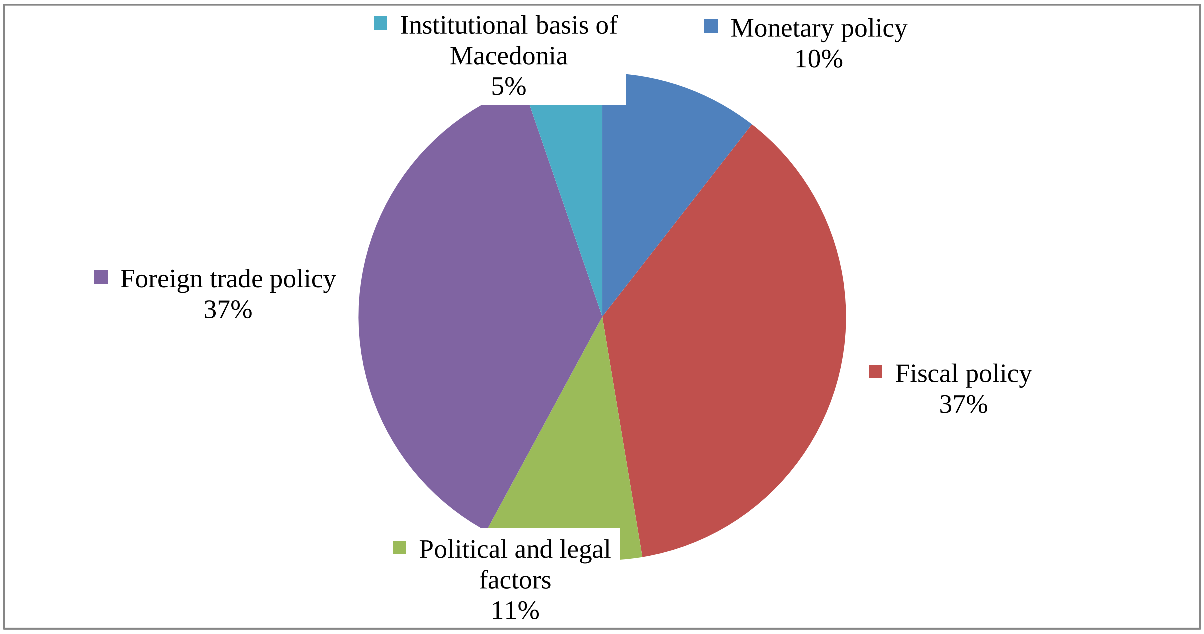
The second question reveals the opinion of the companies on the investment opportunities in Macedonia. Out of the total 10 companies that responded to this question, 10 believe that Macedonia has favorable laws for foreign investors, 7 companies believe that Macedonia has skilled labor force, 6 companies believe that Macedonia has a favorable political climate and 7 companies consider that Macedonia has a favorable economic structure.

Expressed in percentages, 34% of the surveyed companies believe that Macedonia has favorable laws for foreign investors. 23% of the foreign investments in the Pelagonia region believe that Macedonia has favorable economic structure and skilled labor force, while only 20% of the companies answered that there is a favorable political climate in Macedonia.

Question 3: What factors had a decisive influence on the investment in Macedonia?

The third question relates to the factors that had a decisive influence in making the decision to invest in Macedonia. As it can be seen in Figure 19, there are several answers offered in this question, but there is also a possibility for the respondents to provide their own response.

Figure 19. Opinion Regarding the Benefits of Investing in Macedonia.



The monetary policy played a role as a factor influencing the decision to invest in Macedonia for 2 companies, the fiscal policy for 7 companies, the political and legal factors for 2 companies, the foreign trade policy of Macedonia played a role for 7 companies and the institutional basis for one company. Other factors mentioned by foreign investors were proximity to the European market and customers' demand for Macedonian oriental tobacco.

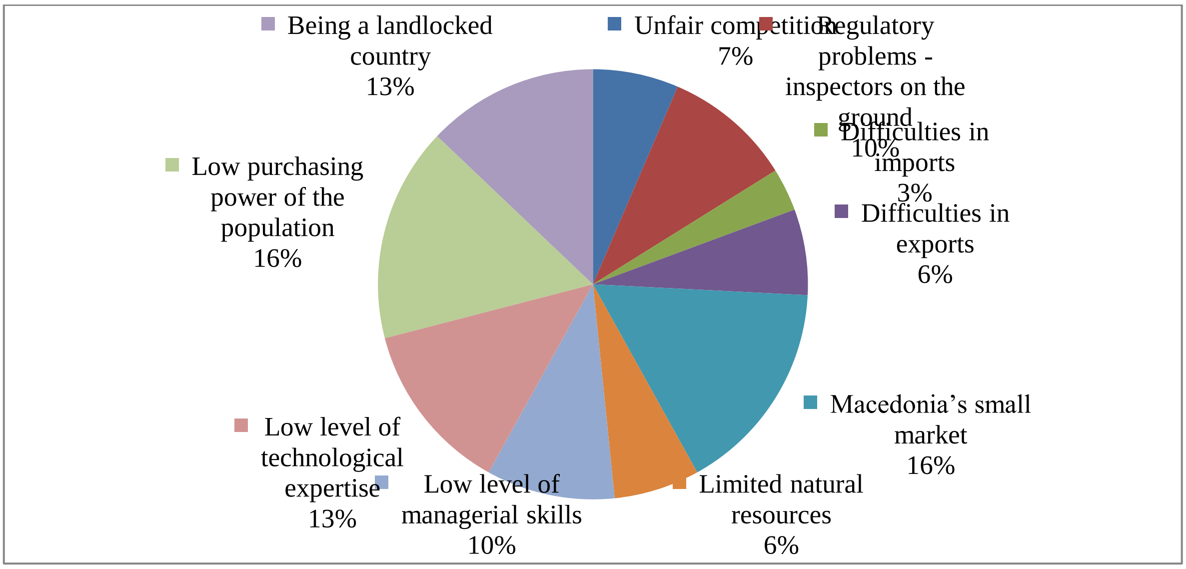
Question 4: What are the problems that your company is facing?

Companies face particular problems when operating in new foreign markets. This question reveals what are the most common problems faced by foreign investors. The most common problems, according to the survey, faced by foreign investors in Macedonia are the small market and low purchasing power of the population. The results of this question are presented below in Figure 20.

The unfair competition in Macedonia is a problem for 2 companies. Out of 10 companies, 3 faced problems with the inspectors on the ground, one company had a problem with the import of inputs from abroad and 2 companies faced problems with the export of the finished product. The small market in Macedonia poses a problem for 5 companies, while the limited natural resources in Macedonia are a problem for 2 foreign investments.

It is known that Macedonia has a low level of technological expertise and low managerial skills. Managerial skills are a problem for 10% of total foreign investments in the Pelagonia region, or for 3 companies, while the low level of technological expertise poses a problem for 13% of the surveyed foreign investments in this region, or for a total of 4 companies.

Figure 20. Problems Faced by the Companies

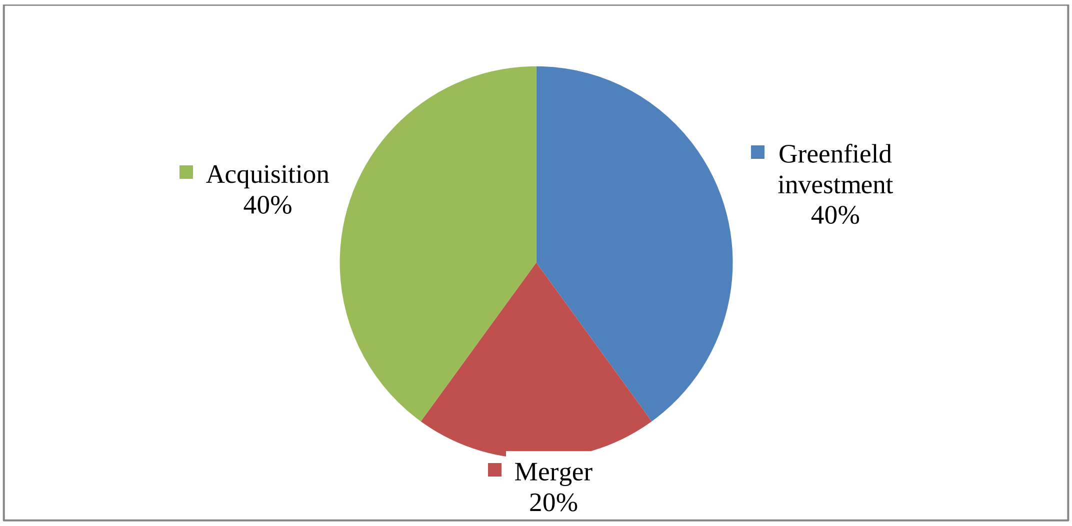


The low purchasing power of the Macedonian population poses a problem for 5 companies and the lack of access to sea is a problem for 4 foreign investments. One of the FDIs mentioned that one of their contracts was terminated because Macedonia is a landlocked country, as well as because of the difficulties in the operations and the transportation cost.

Question 5: What strategy for performance applied your company?

This question refers to the strategy for performance of the foreign companies in the Pelagonia region. Due to the large number of failed companies in his region, part of the foreign investments opted for acquisitions and mergers, but some of the investors decided to “start from the scratch”, i.e. for Greenfield investment, as can be seen in Figure 21.

Figure 21. Entry Strategy Employed by the MNCs

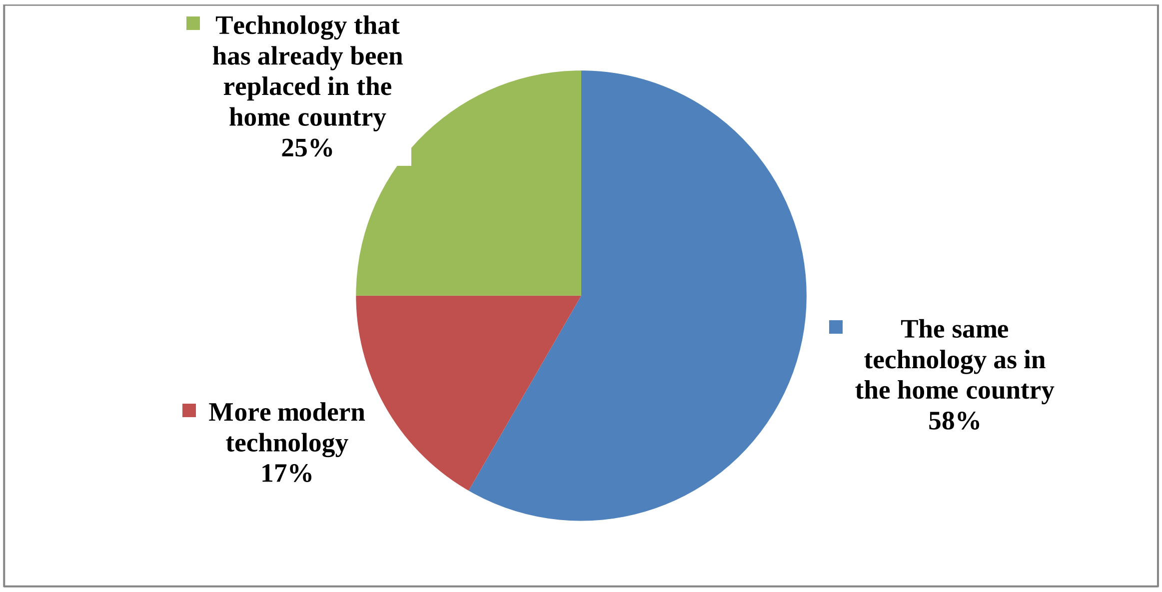


A Greenfield investment strategy was applied by 4 companies that have invested in the Pelagonia region; 4 other companies applied the strategy of acquisition. The strategy of merging was applied by 2 companies. There is one company in the region with a licensing agreement, and another company with a strategic partnership agreement.

Question 6: What type of technology the company applies?

According to Figure 22, the following responses were received on the sixth question:

Figure 22. Type of Technology Applied by the Company.

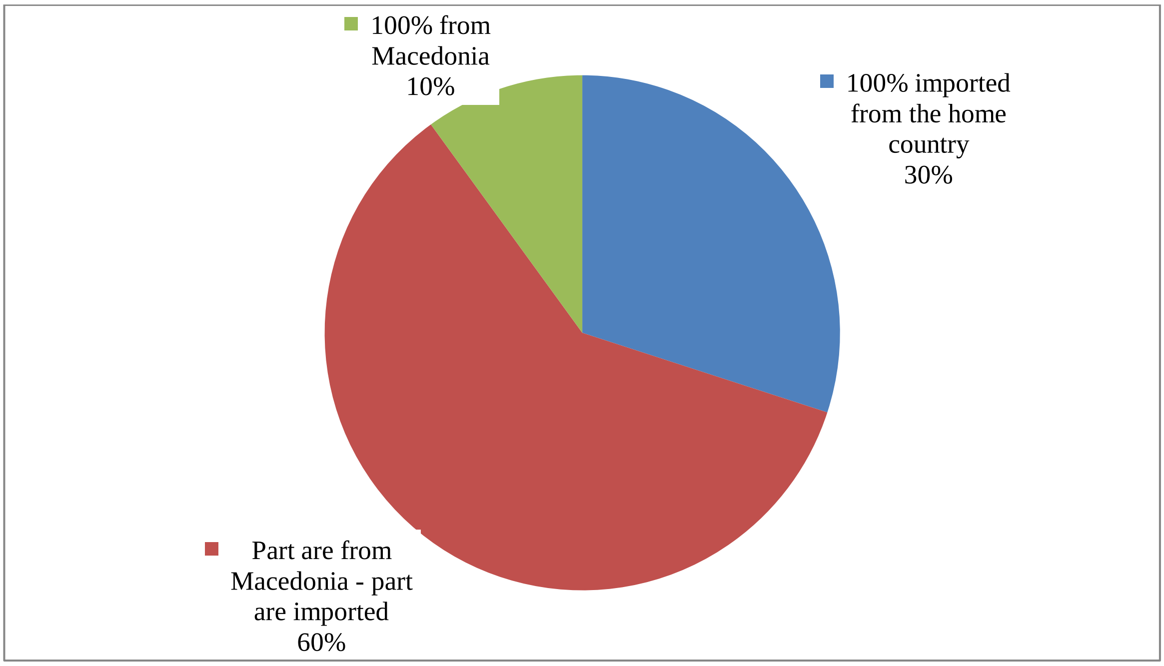


The manufacturing technology has a great impact on the production and on the production costs. The answers to this question provided the following information: the companies, not only use the same technology as in their home country, but 2 of the companies apply the same and even more modern technology than the technology applied in their home country.

Question 7: Do you use inputs from Macedonia or imported?

Inputs are the basic raw materials used in the manufacturing process. This question reveals whether the inputs used by the companies originate from Macedonia or are imported from the company's home country or part are imported and part are from Macedonia. According to Figure 23, the following responses were received on the seventh question:

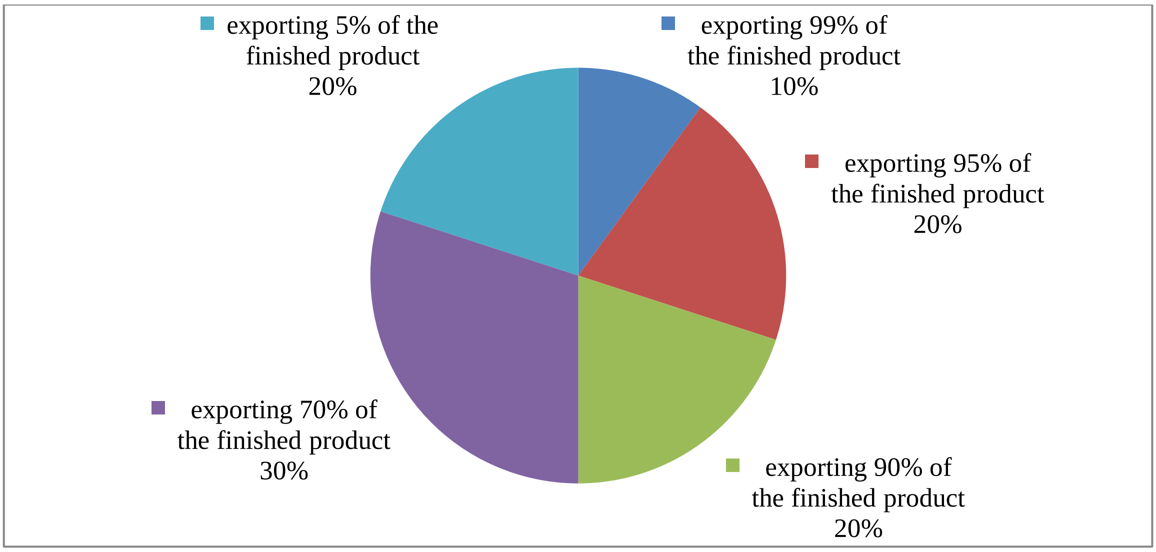
Figure 23. Origin of Inputs Used by the Company



Three companies responded that 100% of the inputs are imported from their home country, and only one company uses 100% Macedonian inputs. Combined inputs use 6 of the companies. One of these companies uses 80% of inputs imported from its home country and 20% from Macedonia, another company responded that 50% of inputs are from Macedonia, and the other 50% from its home country. The remaining four companies did not provide exact answers.

Question 8: What percentage of the finished product is intended for foreign markets?

Figure 24. Share of Finished Products Intended for Foreign Markets

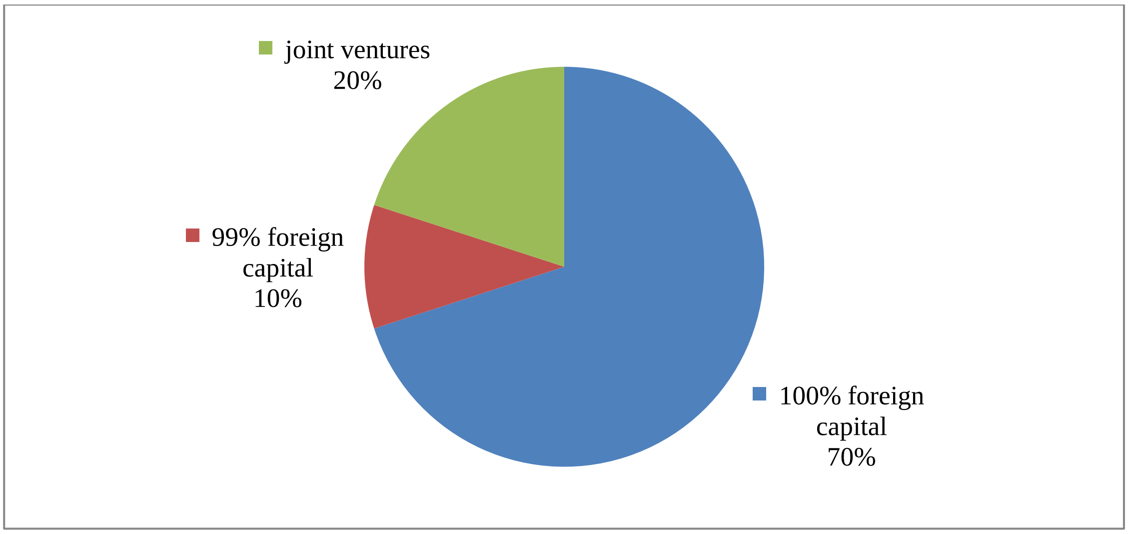


The export of finished product has positive impact on the balance of payments of Macedonia due to the inflow of funds in the payment of the product. This question answers whether the foreign investor has designated the finished product for export or for the Macedonian market. Three companies responded that their entire finished product is intended for export, one company is exporting 99% of the finished product, two companies are exporting 95% of the finished product, three companies are exporting 90% of the finished product, 2 companies are exporting 70% of their finished product and 2 companies are exporting 5% of the finished product, as it is shown in Figure 24.

Question 9: What is the structure of the capital?

This question provides an answer about the structure or ownership of the company, as shown in Figure 25. The majority of foreign investments in the Pelagonia region, or 7 companies, have 100% foreign capital, one company has 99% foreign capital, two companies are joint ventures – one of them has British-Macedonian structure of capital and the other US-Macedonian structure of capital.

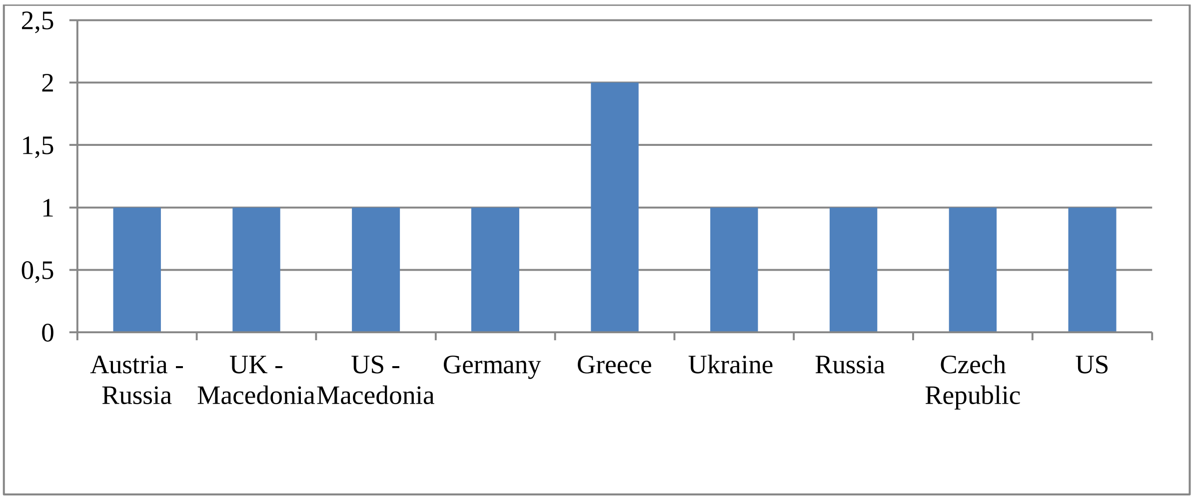
Figure 25. Structure of Capital (of investors)



Question 10: Country of origin of the MNC?

The country of origin reveals the geographical origin of the foreign investor. The answers to this question reveal that two companies are of Greek origin, but also as countries of origin are mentioned the Czech Republic, Ukraine, Russia, USA, Germany, Austria, UK, as it is introduced in Figure 26.

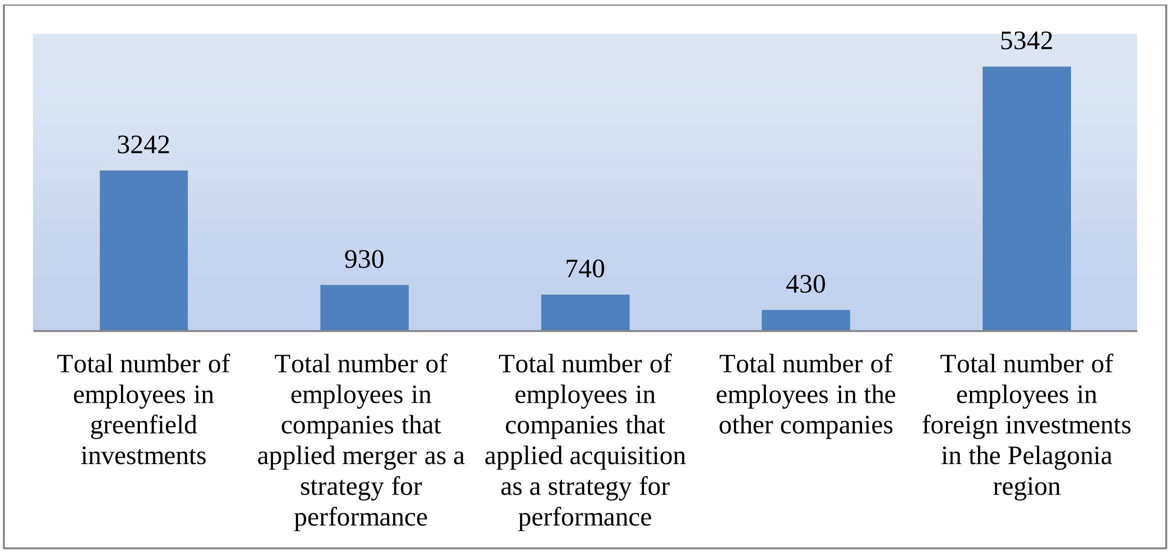
Figure 26. Country of Origin of the Company



Question 11: Number of currently employed persons in the FDIs and in the other companies with foreign capital?

FDIs have positive impact on the employment in the country in which they are participating. The following responses were received on this question, as shown in Figure 27.

Figure 27. Number of Employees in the Surveyed Companies with Foreign Capital



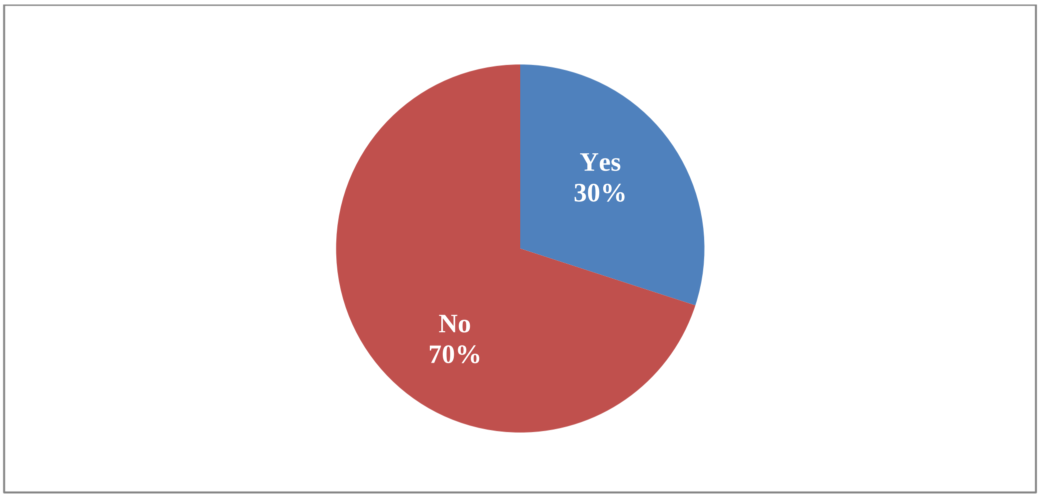
The total number of employees in the foreign investments in the Pelagonia region with more than 10% of foreign capital is 5,342 persons. The total number of employees in the companies that applied Greenfield investment as a strategy for performance in Macedonia is 3,242 persons, or 61% of all employees in the surveyed companies. This confirms the thesis that Greenfield investments open a greater number of jobs than the other strategies for performance.

The number of employees in the companies that applied merger as a strategy for performance is 930 persons, while the number of employees in the companies that applied acquisition as a strategy for performance is 740 persons. The total number of employees in MNCs with FDIs is 4,912 persons. The number of employees in the companies that applied other types of strategy for performance which is not covered in the FDI is 430 persons, or 8% of the total number of employees of the surveyed foreign investment.

Question 12: Do you consider expansion in Macedonia?

The following responses were received on the last question, as it is shown in Figure 28.

Figure 28. Opinion About Expanding in Macedonia.



Out of the total 10 companies, 7 companies answered that they do not consider expansion in Macedonia and 3 companies said that expansion is possible if there is increased demand for their products and if the Macedonian government continues providing new privileges for foreign investors.

5 RECOMMENDATIONS

Based on the theoretical overview in the first part of this Master's Thesis and the results obtained from the survey conducted in the companies with foreign capital which have already invested in the Republic of Macedonia, I can conclude that the Republic of Macedonia, although a small country, can be attractive to foreign investors. A sound and effective policy for attracting FDIs can contribute to overcoming the limiting factors, to exploiting the opportunities and to creating a favorable investment climate.

5.1 Recommendations for MNCs Entering Macedonia

The Republic of Macedonia is making progress in the development towards a market economy and implementation of economic reforms, maintaining its macroeconomic stability through the solid macroeconomic policy and stable monetary policy, through the careful and prudent fiscal policy. Nevertheless, the World Bank (2013), in three consecutive years, ranks the Republic of Macedonia as the best reformer in the Southeast Europe.

The Republic of Macedonia, with an area of 25,713 square kilometers and a population of 2.1 million is a small country with a small market, but with the signed trilateral agreements (SAA, EFTA and CEFTA) and two bilateral agreements (with Turkey and Ukraine) for free trade, as well as its membership in the World Trade Organization, provides tax-free access to a market of 650 million consumers. In addition, the good geostrategic position of the Republic of Macedonia enables fast transport of goods – it takes a day for the goods to reach the countries from Central and Eastern Europe and Turkey, and a maximum of two days to the countries of Western Europe (World Bank, 2013).

The Republic of Macedonia is a candidate country for membership in the EU and NATO; it has met all the necessary conditions for membership, but because of the name dispute it cannot start the EU membership negotiations. Membership in NATO will certainly increase the security and political stability in the country, which will reduce the risk and will increase the reliability and confidence of foreign investors and create an opportunity the Republic of Macedonia to become more competitive country in the region. "Given that the membership in the EU gives the investors certainty and stability for their investment, the accession of these countries (the SEE countries) to the EU would bring investment inflow in far greater scale." This is confirmed by the fact that the EU membership caused expansion of FDIs in Bulgaria and Romania and the NATO membership of the Republic of Albania also contributes to a greater security of foreign investors for their investments in this country. However, in present circumstances, namely the destabilization of Kosovo and Serbia, it is particularly important to attract more FDIs, since the stabilization of political and security situation in these countries will pose direct competition in attracting foreign investors. Moreover, the crisis that has engulfed our southern neighbor Greece, may result in increased sales of state property, and thus in increased FDIs in this country.

The combination of continental-Mediterranean climate and highly qualified and skilled workforce creates a competitive advantage for investment in food processing industry. The skilled, relatively young and cheap labor force (42% are under 30 years of age) makes Macedonia especially suitable for labor-intensive activities that require intensive use of labor force, such as textile industry, manufacturing products for the automotive industry, including products such as security systems, seat belts, airbags, electronics, sensors, precision plastic, aluminum, zinc and iron products.

Wireless infrastructure, digital communication system and highly qualified and relatively cheap labor force, however, create a base for foreign investment in the service sector, but also in the financial sector, in banking, in insurance, in software development.

My survey findings show that the Republic of Macedonia has improved the general business climate and that the companies are considering to increase their investment in Macedonia and reinvest the profits gained.

The Republic of Macedonian provides foreign investors with (TIDZ, 2014):

- Legal protection;
- Flat corporate and personal income tax of 10% and 0% tax on reinvested profit, i.e. the lowest taxes;
- Fast registration of companies in a one-stop shop procedure in only four hours, with an initial capital of at least 5,000 Euros;
- Low operating costs and expert assistance in obtaining the necessary permits;
- Ten-year tax exemptions for investors in the technological-industrial development zones (TIDZ) from payment of income tax and personal income tax;
- Long-term lease of land in the technological industrial development zones in the Republic of Macedonia for up to 99 years;
- Exemption from payment of fee for the construction land to the local self-governments, as well as fees for obtaining construction permits;
- Free connection to water supply and sewerage network in the technological industrial development zones;
- Possibility for participation of the Government of the Republic of Macedonia with up to 500,000 Euros in the construction cost of the investors in the TIDZ, depending on the number of new jobs opened with the investment and the value of the investment.

5.2 Recommendations for Policy Makers in Macedonia

The inflow of foreign investments, as already concluded, depends on the investment climate in the country and the perception of the potential investors. Therefore, it is vital to create favorable conditions for investment and implement well-targeted promotional activities to inform the foreign companies of the conditions and opportunities offered by the Republic of Macedonia.

The Republic of Macedonia, in the past few years, implemented an effective policy to attract FDIs. The effectiveness of the policy applied by the Government of the Republic of Macedonia to attract foreign investment, but also the limiting factors and opportunities in the Republic of Macedonia, are elaborated in the preceding sections. Notwithstanding, the fact is that the Government of the Republic of Macedonia cannot influence the impact of the external environment and of the global processes. This was proven with the analysis of the movements of FDIs, which marked growth in the period before the global crisis.

During the crisis and in the post-crisis period, foreign investors refrained from investing in their home countries, and even more from investing abroad. Furthermore, some of the investors withdrew their capital from the Republic of Macedonia and credited the parent companies and their subsidiaries in other countries. Such was the case with the Greek companies in the Republic of Macedonia which, in the first eight months of 2011, withdrew about 70 million Euros, which can be said to be an expected consequence of the crisis in Greece (NBRM, 2013).

Statistics show that in the period of the strongest impact of the global recession, the level of FDIs in the Republic of Macedonia amounted 145 and 160 million Euros. This confirms the fact that well-defined policy, supported by well-targeted promotional activities and propaganda, is necessary to attract FDIs, as an important factor for rapid economic growth.

Based on the statistical data and the survey results, I can conclude that the Government of the Republic of Macedonia, in the period after its independence until the current observations, is strongly committed and implements an intensive policy to attract FDIs. The success varies, but the trend is increasing and is positive, which speaks of the strategic orientation that should positively affect the economic growth and development, and thus the overall social development.

In this regard, for the purpose of strengthening the conditions and opportunities for attracting FDIs, the Government of the Republic of Macedonia should make further efforts:

- To improve the infrastructure, especially the roads, railways and public transport;
- To combat the gray economy;
- To increase the efficiency of the administration, by continuing the reform in the public administration;
- For full independence of the judiciary through profound reforms in order to meet the international standards;
- To prevent corruption and crime;
- For completion of the legal framework, without often changes in the legislation and consistent application of the law;
- To attain the strategic goals for full membership of the Republic of Macedonia in the EU and NATO;
- To invest in education, science and information technology, to create a sound basis for attracting investment;
- To maintain good inter-ethnic relations and create a stable political and security environment;
- For good cooperation with its neighbors and hence to provide conditions for free movement of factors of production (goods, services, people and capital) according to the European rules.

CONCLUSIONS

MNCs are corporations that carry out activities in more than two countries. They play a major role in the development of the world economy. The largest 500 MNCs in the world account for more than 90% of global FDIs, and thus for more than 50% of world trade. The success of MNCs is owing to the successfully chosen performance strategy. There are several strategies for performance of MNCs and the choice depends on the product competitiveness and attractiveness of the country (Bennett & Blythe, 2010).
FDIs represent some sort of globalized strategy for performance of MNCs, implemented through Greenfield investments, mergers or acquisitions. The process of globalization causes changes in the general attitudes when FDIs are concerned. They are no longer viewed with suspicion, but as a major factor for the development of the countries. The countries are increasingly trying to attract foreign investors by offering favorable conditions. The effect of foreign investments is not the same in all countries, as it depends on the country's ability to absorb the technology that is used by the company, to learn new managerial skills, to acquire technological expertise. However, it is well known that FDIs have a positive impact on the employment in the country, on the trade balance, as well as on the economic development of the country (Abor & Harvey, 2008).

Mergers and acquisitions in the world in 2013 reached the value of 400 billion US Dollars, and in 2014 their value increased by 34% and reached the value of 900 billion US Dollars. The value of Greenfield investments globally dropped. FDIs, at global level, declined; in 2014 they dropped by 16% compared to 2013 and reached the value of 1.23 billion US Dollars (UNCTAD, 2015).

Macedonia, as a country in transition, is constantly striving to attract foreign investment to the greatest possible extent. By taking legal and economic measures, it creates a favorable international investment climate. The level of FDIs in Macedonia moved with varying dynamics in the period 2009-2014. The lowest value of FDIs in this period was recorded in 2013, when it amounted 143 million US Dollars, while the highest value was recorded in 2011, when it amounted 479 million US Dollars (NBRM, 2014).

The analysis of FDIs in Macedonia, according to the division of portfolio investments and foreign investments, shows that portfolio investments are less attractive compared to foreign investments. However, the analysis of foreign investments in Macedonia, in terms of new and permanent investments, shows that new investments are less than permanent. The grouping of FDIs by branches shows that most of the investments are in the services sector, followed by the industry, and on the third place are investments in electrification and gasification. According to the country of origin, FDIs originate from different countries, but the five largest investors in Macedonia in 2014 were Austria, Greece, Hungary, the Netherlands and Slovenia (NBRM, 2014).

In the conducted survey, out of the 10 companies surveyed, 9 answered that the biggest reason for entering Macedonia was the **cheap labor force**, then the **cheap raw materials**. This is consistent with the so-called **resource-seeking** behavior. All 10 surveyed companies believe that Macedonia has favorable laws for foreign investors, and 7 companies believe that Macedonia has a good fiscal and foreign trade policy.

Most common problems faced by foreign investors in the Pelagonia region are: the low purchasing power of the population and the small market of Macedonia. Four companies applied Greenfield investment as a strategy for performance, one company applied the merger strategy, four companies applied acquisition, and licensing and strategic partnerships are also mentioned as other forms of performance. The companies surveyed are using the same technology as in their home country, some of them use combined inputs, i.e. part of the inputs are from Macedonia and part are imported.

MNCs in the Bitola region employed a total of 3,620 people, the largest number of employees is in the Greenfield investment Kronberg and Schubert, with the total number of currently employed 2,500 persons. In the Prilep region, MNCs provided a total of 1,510 new jobs, of which 930 persons were employed by the British-Macedonian company, Comfy Angel, which applied merger as a strategy for performance. Sumbro in Samokov currently has 105 employees, the company Grishko in Demir Hisar currently has 72 employees, the Aluminum and Zinc Foundry operates with 35 employees. The total number of currently employed in the MNCs in the Pelagonia region is 5,342 people (TIDZ, 2014).

Generally, investors are satisfied with the conditions for foreign investors in Macedonia, and it can be seen from the fact that 7 out of 10 companies surveyed consider expansion.

Most of the MNCs that have invested in the Pelagonia region applied acquisition and Greenfield investment as strategies for performance. Four of the MNCs applied acquisition, and four other companies applied Greenfield investment. According to the survey findings, the Prilep Brewery holds a contract for licensed production and sale of products from the global brand Pepsi Co., which means that Pepsi Co. applied licensing as a strategy for performance on the Macedonian market. With the entry of Philip Morris in the Tobacco Company Tutunski Kombinat - AD Prilep a strategic partnership agreement was concluded, while the British-Macedonian company Comfy Angel applied merger.

According to the number of employees, the largest number of jobs provided the companies that applied Greenfield investments, i.e. 3,242 new jobs. The second highest number of jobs provided the companies that applied merger as a strategy for performance, i.e. 930 new jobs. The total number of employees in the companies that applied acquisition as a strategy for performance is 740 persons, while the company that has implemented strategic partnership as a strategy for performance employed 430 persons. The largest number of jobs provided the companies with Greenfield investments, followed by the companies that applied merger and third are the companies that applied acquisition. This confirms that Greenfield investments open the largest number of new jobs, while in the case of acquisition (primarily due to the restructuring of the company), the workers are first dismissed and later, when the company becomes operational again, new persons are employed (AFIP, 2014).

Based on the theoretical postulates and results obtained from the research conducted in the companies with foreign capital that have already invested in the western part of the Republic of Macedonia, it may be concluded that this region can still be attractive for foreign investors. A sound and effective policy can contribute to overcoming the limiting factors, to exploiting the opportunities and creating favorable investment climate. Hence, the favorable conditions in this region should be promoted and regarded as a competitive advantage over the other regions of the country and over the surrounding countries which also implement policies to attract FDIs.

All conclusions and findings resulting from this paper can serve as a good indicator for future research on this topic and as a guideline for drafting strategies to attract more FDIs, especially in our country. In this context, reconstruction of the policy for attracting FDIs is needed in order to create a macroeconomic environment in which FDIs will not be focused exclusively on the manufacturing industry but also on agriculture, IT sector and tourism, to consider geographical diversification in attracting FDIs since major sources of FDIs in Macedonia are the EU countries which indicates the need to work harder on attracting new foreign partners and further improve the business climate by offering lower taxes, firm regulatory framework, favorable credit policy simplification and computerization of all procedures in order to save time and money. Such measures will significantly improve the business environment for successful functioning of the domestic companies while creating a favorable investment climate in the eyes of the foreign investors and thus attracting more foreign capital.

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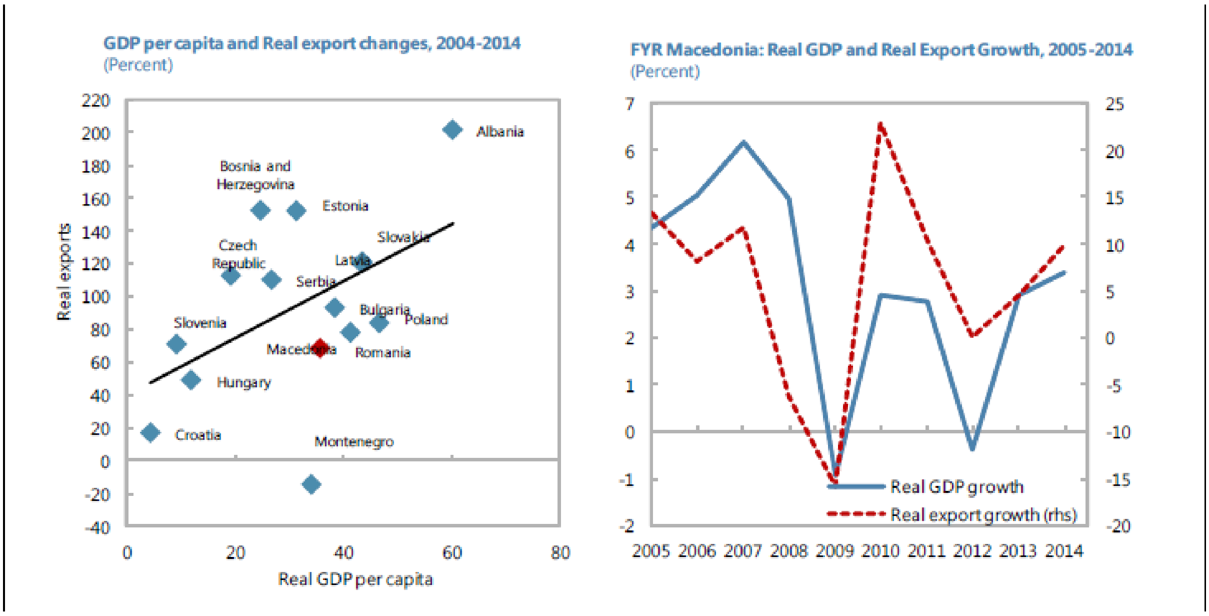
APPENDICES

LIST OFAPPENDICES

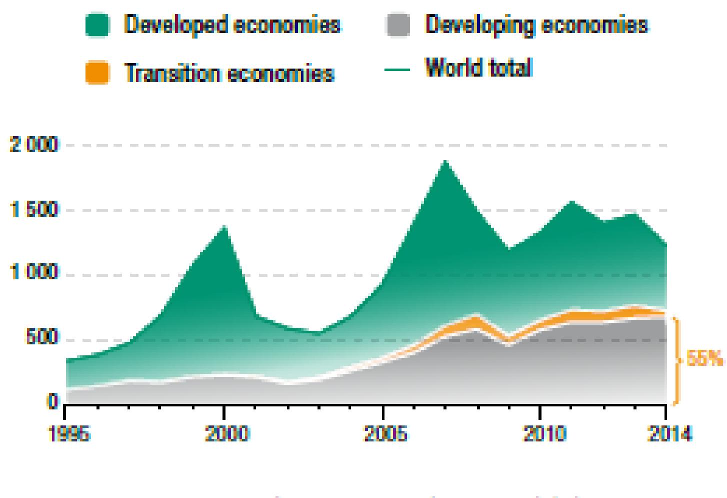
APPENDIX A: Statistics about FDIs in Macedonia

Figure A1. Macedonia GDP and Export Growth, 2004-2015



Source: IMF, *Country report No. 15/243*, 20,15 p.5

Figure A2. FDI Inflows, Global and by the Group of Economies, 2008-2015 (billion US Dollars)



Source: UNCTAD, *WIR* 2015, p. 2

Table A1. Growth Rates of Global GDP, GFCF, Employment and FDI, 2008-2015

Table I.1. Growth rates of global GDP, GFCF, trade, employment and FDI, 2008–2016
(Per cent)

Variable	2008	2009	2010	2011	2012	2013	2014	2015[a]	2016[a]
GDP	1.5	-2.0	4.1	2.9	2.4	2.5	2.6	2.8	3.1
Trade	3.0	-10.6	12.6	6.8	2.8	3.5	3.4	3.7	4.7
GFCF	3.0	-3.5	5.7	5.5	3.9	3.2	2.9	3.0	4.7
Employment	1.2	1.1	1.2	1.4	1.4	1.4	1.3	1.3	1.2
FDI	-20.4	-20.4	11.9	17.7	-10.3	4.6	-16.3	11.4	8.4
Memorandum									
FDI value (in $ trillions)	1.49	1.19	1.33	1.56	1.40	1.47	1.23	1.37	1.48

Source: UNCTAD, *WIR* 2015, p. 2

Table A2. Gross Domestic Product, 2001-2014.

	GDP at current prices (in million denars)	GDP per capita in Euros (at current exchange rate)	GDP in million Euros (at current exchange rate)	GDP real growth rates in %	GDP deflator
2001	252 393	2 036	4 143	-3.1	104.7
2002	258 581	2 099	4 241	1.5	100.9
2003	268 695	2 164	4 386	2.2	101.7
2004	280 786	2 252	4 578	4.7	99.8
2005	308 432	2 470	5 032	4.7	104.9
2006	334 840	2 682	5 472	5.1	103.3
2007	372 889	2 982	6 095	6.5	104.6
2008	414 890	3 308	6 772	5.5	105.5
2009	414 622	3 300	6 767	-0.4	100.3
2010	437 296	3 459	7 109	3.4	102.0
2011	464 187	3 665	7 544	2.3	103.7
2012	466 703	3 680	7 585	-0.5	101.0
2013	501 891	3 948	8 150	2.9	104.5
2014[1)]	525 620	4 126	8 530	3.5	101.2

Source: State Statistical Office, *Annual Report*, 2015, p. 31

Figure A3. Macedonia GDP Growth Rate

Source: www.tradingeconomics.com

APPENDIX B: Questionary

Questionnaire
Survey topic: FDIs in the Western part of Republic of Macedonia
- The Pelagonia region

Question 1: What has motivated you to invest in Macedonia?

Reason	Yes	No
New market opportunities		
Possibility of opening a business overnight		
Cheap labor force		
Cheap raw materials		
Other reasons (Specify which?)		

Question 2: Do you think that the Republic of Macedonia has:

Favorable laws for foreign investors	
Skilled labor force	
Favorable political climate	
Favorable economic structure	

Question 3: What factors had a decisive influence on the investment in Macedonia?

Monetary policy	
Fiscal policy	
Political and legal factors	
Foreign trade policy	
Institutional basis of Macedonia	
Other factors	

Question 4: What are the problems that your company is facing?

Unfair competition	
Regulatory problems - inspectors on the ground	
Difficulties in imports	
Difficulties in exports	
Macedonia’s small market	

Limited natural resources	
Low level of managerial skills	
Low level of technological expertise	
Low purchasing power of the population	
Being a landlocked country	

Question 5: What strategy for performance applied your company?

Greenfield investment	
Merger	
Acquisition	
Other	

Question 6: What type of technology the company applies?

The same technology as in the home country	
More modern technology	
Technology that has already been replaced in the home country	

Question 7: Do you use inputs from Macedonia or imported?

100% imported from the home country	Part are from Macedonia - part are imported	100% from Macedonia

Question 8: What percentage of the finished product is intended for foreign markets? ____________________

Question 9: What is the structure of the capital?

Question 10: Country of origin of the MNC? ____________________

Question 11: Number of currently employed persons in the FDIs and in the other companies with foreign capital? ____________________

Question 12: Do you consider expansion in Macedonia?

Yes	
No (Why?)	

APPENDIX C: Answers to the Questionnaire

Answers to the Questionnaire
Survey topic: FDIs in Western part of Republic of Macedonia
- The Pelagonia region

Question 1: What has motivated you to invest in Macedonia?

Reason	Yes
New market opportunities	3
Possibility of opening a business overnight	1
Cheap labor force	9
Cheap raw materials	6
Other reasons (Specify which?)	- Closer to clients

Question 2: Do you think that the Republic of Macedonia has:

Favorable laws for foreign investors	10
Skilled labor force	7
Favorable political climate	6
Favorable economic structure	7

Question 3: What factors had a decisive influence on the investment in Macedonia?

Monetary policy	2
Fiscal policy	7
Political and legal factors	2
Foreign trade policy	7
Institutional basis of Macedonia	1
Other factors	- proximity to the European market - customers' demand for Macedonian oriental tobacco

Question 4: What are the problems that your company is facing?

Unfair competition	2

Regulatory problems - inspectors on the ground	3
Difficulties in imports	1
Difficulties in exports	2
Macedonia's small market	5
Limited natural resources	2
Low level of managerial skills	3
Low level of technological expertise	4
Low purchasing power of the population	5
Being a landlocked country	4

Question 5: What strategy for performance applied your company?

Greenfield investment	**4**
Merger	2
Acquisition	4
Other	- strategic partnership - licesing

Question 6: What type of technology the company applies?

The same technology as in the home country	**7**
More modern technology	2
Technology that has already been replaced in the home country	3

Question 7: Do you use inputs from Macedonia or imported?

100% imported from the home country	**Part are from Macedonia - part are imported**	**100% from Macedonia**
3	6	1

Question 8: What percentage of the finished product is intended for foreign markets?

exporting 99% of the finished product	**1**
exporting 95% of the finished product	2
exporting 90% of the finished product	2
exporting 70% of the finished product	3
exporting 5% of the finished product	2

Question 9: What is the structure of the capital?

100% foreign capital	**7**
99% foreign capital	1
joint ventures	2

Question 10: Country of origin of the MNC?

Country of origin	
Austria - Russia	1
UK - Macedonia	1
US - Macedonia	1
Germany	1
Greece	2
Ukraine	1
Russia	1
Czech Republic	1
US	1

Question 11: Number of currently employed persons in the FDIs and in the other companies with foreign capital?

Total number of employees in Greenfield investments	**3,242**
Total number of employees in companies that applied merger as a strategy for performance	930
Total number of employees in companies that applied acquisition as a strategy for performance	740
Total number of employees in the other companies	430
Total number of employees in foreign investments in the Pelagonia region	5,342

Question 12: Do you consider expansion in Macedonia?

Yes	**3**
No	7