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TURKEY'S FDI AND SOCIO-ECONOMIC DEVELOPMENT OF NORTH MACEDONIA

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Abstract

In North Macedonia, domestic savings and investment rates are low and insufficient for achieving more dynamic economic growth. On the other hand, borrowing by lenders (international and domestic) is not acceptable due to the limited budget opportunities for servicing the external debt in the medium term. At the same time, the dynamisation of the economic activity requires greater investments, which taking into account the aforementioned reasons, are expected to be realised by attracting FDIs as a long-term source and catalyst of the economic activity in the country. In the analysis made, it is determined that investments of Turkish origin have positive effects on the economy of the country. In this direction, our main goal, found the fact that a substantially increased economic cooperation over the last decade and particularly important economic and strategic partner who examine FDIs from the Republic of Turkey is to contribute in this direction, make proposals to ensure that reveal the effects and increase attendance.

Keywords: FDI, Economic Effects, Republic of North Macedonia, Republic of Turkey.

1. INTRODUCTION

In the long term, international capital movements increase their importance at the level of international economic relations. The reasons why investors want to realize economic activities in the host country are different. Foreign investors, according to the purpose of investing in a foreign country, can be categorized as investors who come for: natural resources, market opportunities, economic activities, strategic goals and capacity of the economy etc..

Foreign direct investments (FDI) are perceived as the main actors of the contemporary economic globalization. If we look at recent history, it can be concluded that the concept and practical achievements of FDI

began to emerge after the Second World War. After the 1960s, because of the increasing significance of the new FDI models, multinational companies and international cooperation, the international economy had undergone a transformation.

FDI has grown particularly with the establishment of the European Union. This growth continued to increase in the 80s with the start of new trade and oil markets; in the 90s with the collapse of the Soviet Union and the emergence of new markets in Eastern Europe, the growth of FDI has become particularly visible. Accelerated technological transfers and unavoidable ideological and political transformations have led to the approximation of national economies by strengthening the process of globalization and the destruction of closed-market models. Globalization caused movement of international capital from areas with relatively large volume of capital, but low earning, to regions characterized by low volume of capital but high earning.

In the legislation of the Republic of North Macedonia (hereinafter only "Macedonia"), FDIs are defined as the process of establishing long-term business relations in the country and / or as capital inflow in order to manage the company or the legal entity in which is invested. From this definition, FDI can be described as: 1) Establishing a new company; transfer of ownership to the investor by increasing the share capital; buying an existing company in the host country or establishing affiliates of an existing company; 2) Possession of more than 10% of the capital or decision-making power of an existing or new formed company; 3) At least five-year obligation for realization of the company's activities by the foreign investor; 4) Investing in order to achieve long-term economic relations with the host country in the form of lending to the basic activities (NBRNM: Law on Foreign Exchange Operations).

In Macedonia, savings and investment rates are low and insufficient to achieve more dynamic economic growth. On the other hand, due to limited budget funds in the medium term, borrowing from foreign and domestic lenders should not be allowed. Apart from the lack of sufficient level of savings, the need for new technologies and information, the need for new markets, is an incentive for the domestic economic units. At the same time, rising economic activities cause increased amounts of investment. As a result of the reasons we mentioned earlier, the country should realize FDI as a resource and catalyst in economic activities in the long term.

In order to attract the interest of foreign investors, Macedonia, as a small country characterized by a small market, needs to sign bilateral, regional and multilateral cooperation agreements not only with Western countries but also with other countries in the region. In this context, we want to emphasize the importance of the results of the more intense and deeper economic cooperation between Macedonia and the Republic of Turkey (hereinafter only "Turkey").

Like other Balkan countries, Macedonia has deep cultural and economic relations with Turkey. Strengthening these existing relations is essential. Some compare the relations between Macedonia and Turkey with the relations between the former colonial countries (United Kingdom, France, the Netherlands and Belgium) with their former colonies in Africa and in other parts of the World. Nowadays, to know the language of a country, similar educational systems, social traditions and various common values are elements that bring countries and nations closer in a particular way. Given the abovementioned elements, taking advantage of the shared experiences in all fields with Turkey, the doors for cooperation have always been and remain open.

Taking into account the geostrategic role of Turkey in the Balkans, it will be necessary to pay close attention to the socio-economic effects of the refugee crisis on the Balkans and Macedonia. For this reason, for the continuity of political stability, which is one of the prerequisites for socio-economic development, further development of friendly relations with Turkey is needed in every field.

There are several factors that justify Turkey's interest in Macedonia; they are: geographically (located on the road that opens toward Europe), historical (common historical heritage), people/human (the Turkish minority that lives in the country and Macedonian emigrants/expatriates in Turkey), economic (in recent years, increased interest in investing by Turkish businessmen).

2. Legal framework as the Basis for FDIs

The communication and cooperation between Macedonia and Turkey is intense and constructive on all levels. In addition to the good political relations, good economic relations are being built.

Because of the the good political relations, although the legal framework for economic relations between the two countries is well defined, however, the development of the results achieved in the economic sphere lag behind the results of the political field and requires a longer period of time for further development of the relations. In recent years, from an asymmetric point of view, in terms of concluded agreements and achieved results with other countries, more dynamic, but unbalanced economic relations have been observed with Turkey.

In 2008, a strategic cooperation agreement was signed to strengthen bilateral relations between the two countries. This type of agreement has only signed with the United States and Turkey, making this very significant. Macedonia and Turkey have signed 35 international agreements, 49 international documents, one consecutive document and 15 agreements are still in the process of signing.

Several important agreements on the legal framework for trade and economic cooperation between Macedonia and Turkey are:

Agreements	Date of signing	Date of confirmation (in Macedonia)
✓ Agreement on trade and economic cooperation	17.03.1994	03.04.1995
✓ Mutual cooperation between customs services	09.05.1997	01.10.1997
✓ Agreement for the avoidance of double taxation with respect to taxes on income and on capital	16.06.1995	01.01.1997
✓ Bilateral Agreements for the Mutual Protection and encouragement of foreign investment	14.07.1995	27.10.1997
✓ Free Trade Agreement	07.09.1999	01.09.2000
✓ Agreement on cooperation in the field of social policy and employment	05.09.2013	17.01.2014

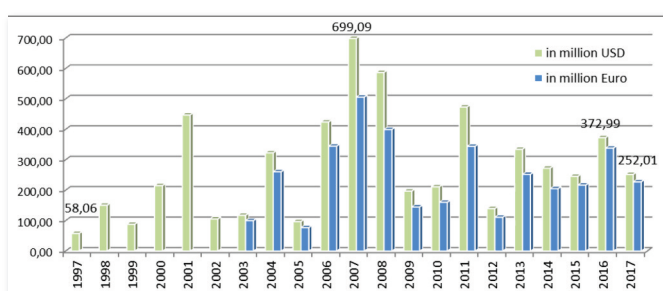
As can be seen, there are several agreements on FDI in the process: the Double taxation avoidance agreement and the Agreements for the Mutual Protection and encouragement of foreign investment. We can conclude that the legal infrastructure for economic development is favorable.

3. FDI in Figures

In order to boost the economy, the Government of the Macedonia is making great efforts to attract FDIs. Especially after 2007, several policies were created and implemented in this field. Although Macedonia is characterized by an advantageous geostrategic position, low taxes, good infrastructure, short periods for opening a new company, and a workforce with foreign languages skills, the level of FDI in the country is not at the desired level.

Figure 1.
FDI flows in Macedonia between 1997-2017 period (in mln USD and Euro)

Source: NBRM database.



It is noticed that the continuous participation of FDIs in the free industrial-technological zones is around 12%. The 3% share of FDIs in free industrial-technological zones in 2008 rose to 51% in 2009. The other years, however, this rate was between the range of 20-30%.

Table 1 identifies FDIs by country of origin, with Austria in first place, followed by the United Kingdom, Greece, the Netherlands, Slovenia and Germany. Turkey is seventh in the list, after occupying sixth place for two years from 2015.

Table 1. FDI in the Republic of North Macedonia, by country, 1997-2017 period (in million Euro)

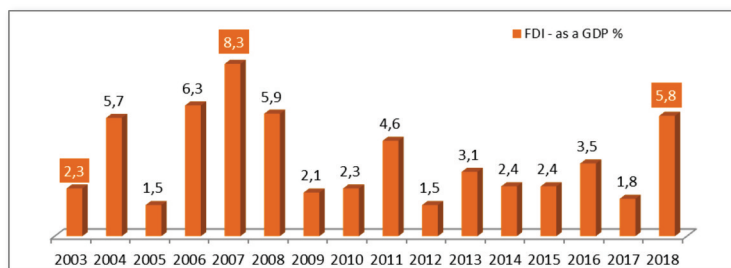
Rank	COUNTRY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	AUSTRIA	17,6	30,1	39,5	33,0	36,8	37,7	42,8	62,3	57,7	219,4	238,3	334,6	362,6	341,5	365,0	396,8	484,3	516,3	524,9	567,5	636,7
2	UK	5,3	5,9	4,2	30,2	19,0	12,7	23,1	27,7	26,4	53,4	80,6	114,8	76,7	102,5	48,1	39,0	111,6	141,5	134,9	519,4	531,6
3	GREECE	9,7	12,8	20,5	105,3	174,2	213,0	223,0	264,1	279,2	320,4	387,1	450,7	380,3	431,2	442,9	436,2	433,5	429,2	477,3	463,4	473,9
4	NETHERLAND	1,4	4,6	10,2	14,7	15,6	61,1	69,7	103,2	213,3	212,0	431,3	435,6	523,6	550,4	740,4	783,0	815,1	869,7	960,0	423,3	375,3
5	SLOVENIA	16,4	21,2	43,7	56,2	58,8	66,4	84,7	101,8	106,8	126,7	165,8	262,8	391,2	366,6	380,3	348,8	396,7	387,6	375,0	374,5	323,9
6	GERMANY	9,3	14,1	15,9	50,2	54,6	52,5	57,3	70,6	64,1	85,9	66,2	62,0	71,3	86,3	83,5	111,3	154,5	190,7	248,2	273,0	
7	TURKEY	0,7	1,1	14,2	16,1	16,2	18,0	18,9	26,5	25,1	27,7	34,9	43,0	49,7	48,3	117,2	145,3	168,1	182,1	214,6	247,8	252,3
8	HUNGARY	0,0	0,0	0,0	0,0	300,6	300,1	313,4	354,4	350,0	350,4	421,3	410,6	388,7	346,9	346,6	346,4	324,6	227,3	226,5	209,5	213,5
9	SWITZERLAND	32,1	40,8	45,8	61,5	79,2	85,2	101,9	143,9	164,2	150,8	166,8	200,7	202,1	149,8	124,2	88,5	72,0	173,8	152,1	179,6	184,4
10	CYPRUS	1,2	77,1	92,8	117,9	138,7	141,6	141,1	150,5	160,8	182,2	20,5	34,9	47,9	46,2	48,8	57,7	68,7	51,1	54,4	162,9	164,2
	TOTAL	141,2	270,4	359,9	580,1	1.039,2	1.160,7	1.292,1	1.610,2	1.769,0	2.098,6	2.545,2	2.968,8	3.141,4	3.256,0	3.615,1	3.685,5	3.980,0	4.023,6	4.400,1	2.016,0	2.017,0

Source: NBRM database.

The following foreign companies can be listed as the largest foreign investors in Macedonia, from Austria: Mobilkom Austria, EVN, Vienna Insurance Group; from the UK: Johnson Matthey; from Greece: The National Bank of Greece, Hellenic Bottling Company S.A., Titan Group; from the Netherlands: Mittal Steel; from Germany: Deutsche Telekom, Kromberg & Schubert, Dräxlmaier Group; from Turkey: Cevahir Holding, Limak Holding, Acibadem Group, TAV; Van Hool (Belgium), Societe Generale (France), Johnson Controls (USA), KEMET Corporation (USA), Duferco (Switzerland), Lukoil (Russia), IBC (Israel), Gazit Globe (Israel)⁹² etc.

Figure 2.
FDI in the Macedonia
(as a GDP %)

Source: NBRM and Ministry
of Finance databases.

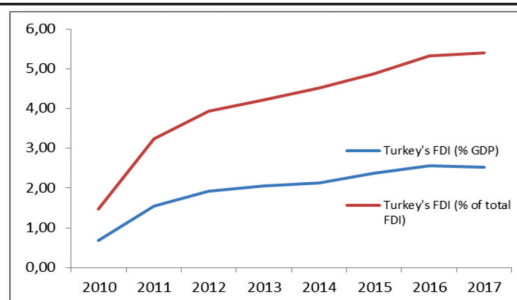


It can be also noticed that the level of FDI in Macedonia is insufficient by the low relative share of FDI in relation to GDP. In the period 2003-2017, FDI in GDP was 3.58% on average. The share of Turkish investments, however, in the total FDI of the country in the period 1997-2017 was on average 2.57%.

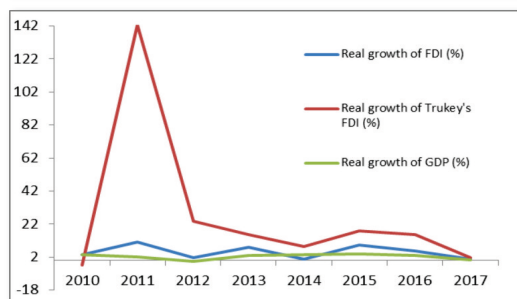
The charts below show that the share of FDI from Turkey in GDP and in the total FDI in Macedonia is growing. Also, in the period from 2010 to 2017, the growth of FDI from Turkey is higher than the real growth of the total FDI and GDP in Macedonia. There is also a great potential for cooperation between the two countries, which will affect the further growth of these variables,⁹³ but is yet to be utilized.

92) Invest Macedonia: FDI, <http://www.investinmacedonia.com/why-macedonia/growing-fdi>

93) For more information see: Aliyi, E.: Makedonya Cumhuriyeti İnşaat Sektöründe Türkiye Cumhuriyeti Menşeli Doğrudan Yabancı Yatırımlarının Önemi [Importance of the Turkish FDIs for the Macedonian Construction Sector], Hikmet -International peer-reviewed journal of scientific research, no.29, May 2017, pp.130.

Figure 3. FDI stock from Turkey (%)

Source: Processing by the author from the databases of NBRM, Ministry of Finance and Statistical Office.



If you look at the indicators shown by the countries that invest most in Macedonia, Turkey's investment per capita is constantly growing. In 2010 they were 23 euros, while in 2015 is 104 euros, showing a 4.5 times increase.

The National Bank of the Republic of North Macedonia (NBRMS) has data for the amount of the FDIs from Turkey, from 1997, as well as data on the trends of direct investments from 2003. The National Bank of the Macedonia still does not produce data separately for each country per activity, so there is no statistics on data on direct investments from Turkey into Macedonia by activity. Additionally, the submitted data for FDIs from Turkey into tMacedonia refer to the stated periods, expressed in millions of euros, by years.

Table 2.

FDIs from Turkey in Macedonia - stocks and flows, (provisional data, in million Euro)

	Stocks			Flows Value by year
	Value	Total	Share (%)	
1997	0,70	141,22	0,50	
1998	1,15	270,37	0,42	
1999	14,24	359,90	3,96	
2000	16,12	580,05	2,78	
2001	16,23	1.039,15	1,56	
2002	17,98	1.160,71	1,55	
2003	18,86	1.292,14	1,46	1,51
2004	26,49	1.610,22	1,65	3,95
2005	25,06	1.768,97	1,42	0,33
2006	27,72	2.098,57	1,32	3,90
2007	34,91	2.545,17	1,37	2,01
2008	42,98	2.968,75	1,45	1,50
2009	49,74	3.141,38	1,58	4,43
2010	48,29	3.255,97	1,48	15,53
2011	117,23	3.615,08	3,24	77,12
2012	145,32	3.685,54	3,94	23,53
2013	168,13	3.979,97	4,22	22,81
2014	182,1	4.023,6	4,52	17,05
2015	214,6	4.400,1	4,87	17,10
2016	247,8	4.657,3	5,32	24,61
2017	252,3	4.697,8	5,4	10,04
2018	/	/	/	36,20

Source: NBRM database.

In the period between 1997-2017, Turkey was seventh among the foreign investor countries in Macedonia, and the biggest investor from the countries outside the EU according to the total amount of direct investments of 252.3 million euro. In 2018, Turkish FDI flows in Macedonia amounted to 36,20 million euro and was the 3rd ranked among the foreign investor countries. The reason for analyzing the Turkish direct investments in particular is the increased economic cooperation between the two countries in the last ten years.

Although the political relations between the two countries are described as good-neighborly and romantic by the official authorities, the economic relations are not at the desired level. But in the last ten years, it can be said that there is a significant improvement in the economic relations.

According to the information obtained from the Trade Register and the annual accounts (closed database) of Macedonia from January 2019, there are:

- 1013 registered legal entities (the founder and the owner are a private individual or legal persons from Turkey),
- 48 registered branches (for companies coming from Turkey),
- 4190 employments (according to the final reports of 2017 - employees in legal entities with founders or owners from Turkey),
- Profit of 913.942.654 denars (or 14.860.856 euros) - (in the abovementioned Turkish companies at the end of 2017),
- 24.046.770.414 denars (or 391.004.396 euros) as total assets (in the abovementioned Turkish companies at the end of 2017).

In 2017, Turkey realized 455 million USD in trade exchange with Macedonia, making it the 8th country with the largest exchange with the Macedonia. According to the research and forecasts we can claim that the relations between the two countries are realized in two directions, and there is still a serious unused trade and investment potential. Turkish investments are usually around Skopje. Turkish investments are seen in all areas from banking to construction, from retailing to aviation management, from education to health sector and even to news agencies. Large Turkish companies in Macedonia have been organized around the Macedonian-Turkish Chamber of Commerce (MATTO). The following are significant Turkish investments, especially in the 2000s.

Table 3. List of main Turkish investor companies in Macedonia

	Company	Project	Starting date	Amount (mln euro)	Employment	Status
1	Haznedar Refrakter	Investment in Vardar Dolomit company	2003	5	250	Active
2	Ramstore Makedonya	Shopping mall construction	2005	50	575	Active
3	TAV	Construction of 'Aleksandar Velik' and 'Sv. Kliment Ohridski' airports	2008	200	650	Active
4	Halk Bankası	Investment in banking sector (in Ziraat Bankası, formed in 1998 year)	2011	65	491	Active
5	Acıbadem	Investment in Sisitina hospital	2011	/	/	Active
6	Avrupa Göz Hastanesi	Hospital investment	2011	12	52	Active
7	Cevahir Holding	Skycity skyscraper and mall construction & Suncity residential construction	2012	450	450	In progress
8	Limak Holding	Residential and shopping mall construction	2012	250	25	In progress
9	Sütaş	Investment in Balkanska Mlekara company	2012	13	70	Active
10	Levidiagro	Rice processing factory	2015	4	100	Active
11	Çağatay Kablo	Free Zone Skopje 1 cables production factory	2017	4	100	Active
12	Murat Tic. Kablo	Free Zone Skopje 2 cables production factory	2017	6.6	60	In progress
		Total		1053	2823	

In addition, the general effects of the FDIs, the opportunities they offer and certain measures, will be discussed.

4. General Effects of Turkish FDIs in Macedonia

From a general point of view, Turkish direct investment has a positive impact on the economic growth, employment and export. In addition to the direct effects, there are certain indirect effects. FDI affects the following socio-economic areas: Local budgets (funds provided for basic projects, social programs, etc.), employment and human resources (new jobs, higher fee, education, other social benefits - free meals and accommodation, transport, etc.), state regulation and public finances (taxes, customs, relations with state institutions, political risk), infrastructure development, business activities in the region (the effect of expansion, services of foreign companies, development of small and medium enterprises), innovation (new technologies, products, organization, process and marketing), environment and social responsibility of business programs etc.

In addition to the above mentioned effects, the results of statistical models, surveys and interviews will be listed/summarized.

✓ Statistical models (Regression and VAR)

In order to determine the impact and effects of FDI on the key economic variables in the Macedonian economy, we created several simple models (regression and VAR) that should guide the relations between these key variables. In order to determine the impact of FDI and exports on gross domestic product (GDP) for a small and open economy such as Macedonia, we have made a simple regression analysis in which GDP is taken as a dependent variable, while the total amount of FDI and the export are taken as an independent variable. As a result of the regression analysis the impact of the FDI from different countries on GDP and total FDI, it confirmed the conclusions on the significant impact of FDIs from countries with the largest investments on GDP, exports and total FDI, as well as the significant impact of Turkish investments on economic activities in Macedonia. The VAR models that were designed to confirm previous claims on the impact of FDI on exports and other economic activities of Macedonia that is small and open country proved that the growth in FDI has significant effects on GDP and positive export growth, the impact of FDI on increasing economic activity and well-being in the national economy.

In this regard it can be concluded that if FDI in Turkey rise by 10%, in that case there will be a rise in GDP of 0.9%, indicating a significant correlation between these two variables.

✓ Survey

According to the results obtained from our survey conducted in the largest Turkish companies, investors in Macedonia, employment has a positive impact. Only in the companies⁹⁴ involved in the survey approximately 2500 employees are registered, but other employees in other Turkish companies, where this figure seems to be higher, should also be taken into account.

According to the same survey, it was determined that with these larger investments from Turkey, ethnic distribution of employees are mostly Macedonians, then Turks, Bosniaks and Albanians. Also, these companies mostly use the Macedonian language, then Turkish and English as a internal communication language.

✓ Case study

The case study computes the effects of a Turkish construction company⁹⁵ on local government, employment and the effect of spillovers.

94) Ramstore, Halkbank, TAV, Sutas, Cevahir Gurup, Limak, Sante plus vd.

95) Turmak AD – Skopje Branch

Buying construction land for construction: 2.5 million euro

Tax on the sale of land (3%): 75 thousand euros

Fee for landscaping (utilities): about 5 million euros (40% Municipality of Aerodrom and 60% City of Skopje)

Gross wages for employment (7 years): EUR 16.8 million (of which about 8 million euro are contributions and payroll taxes). An average of about 200-250 employments.

Spillover effect for local suppliers and subcontracting services: 60 million euros

*Profit tax (10%)

These are part of the larger positive effects on the economy. On the other hand, some studies indicate no negative effects such as the possibility for construction investors to spend the entire amount and profits in their own home country. The general conclusion is that the positive impact occurs in the case of reinvestment of profits in the country without having an outflow of profits.

✓ Interviews

In order to determine the impact of FDI on socio-economic development, a qualitative study was conducted (conducted interviews and surveys with the managers of the construction companies from the Turkey and the domestic companies).⁹⁶ The content of the interview and this analysis will help to determine the differences in the work and the way of functioning of local and foreign companies in order to determine the socio-economic effects of their activity for the Macedonian economy. The analysis includes questions on management, innovations, staff investments, employee training, corporate social responsibility, social benefits, etc., in order to consider, through a comparative approach, several aspects of the effects of FDI. In this direction, the following table presents a comparison of the socio-economic effects, on one side the local and on the other side the foreign construction companies.

Table 4. Socio-economic effects of FDIs from Turkey (case: construction companies)

Immediate effect of FDI	Description	Domestic companies (construction)	Turkish companies (construction)
<i>Local gov.budget revenue</i>	Provide funds for basic projects	partly	yes, through taxes
	Provide funds for social programs	partly	Yes
<i>Employment and human resources</i>	New jobs	yes	Yes
	Higher fee	yes	Partly
	Education	yes	Yes
	Specialization	partly	Yes
	Other social benefits	no	Yes
	Free meal	yes	Yes
	Free accomodation	no	Yes
	Free transport	partly	Yes
	Subvention for accomoditaion	no	Yes
	Other	no	Yes

96) Domestic companies: Granit AD Skopje (in 2017 year, 76 mln euro realized revenue ve 2.080 employment), Beton AD Skopje (in 2017 year 35 mln euro realized revenue ve 1.095 employment), GIM; Companies from Turkey: Cevahir Gurup AD Branch Skopje (in 2017 year 15 mln euro realized revenue ve 203 employment), Limak Doo Skopje (in start year n/a), Pera Construction International Doo Skopje (in 2017 year 6,7 mln euro realized revenue ve 18 employment), Elif İnşaat Doel.

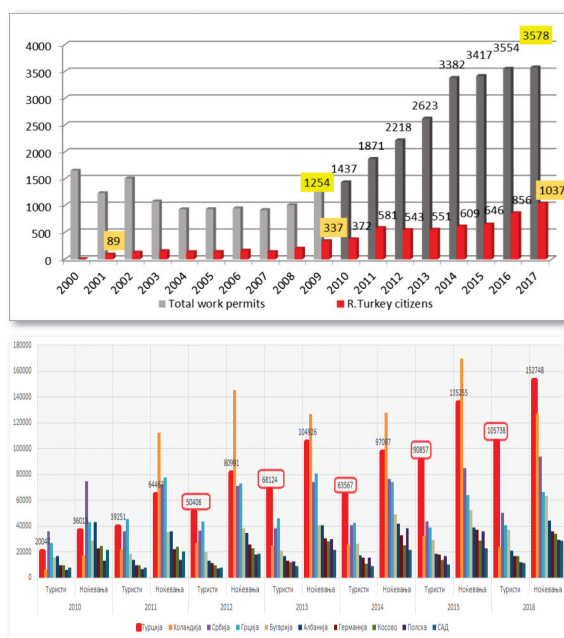
<i>State regulations</i>	Taxes	partly	Yes
	Customs	partly	Yes
	Relations w./ state institutions	yes, good	yes, good
	Political risk	yes	Partly
<i>Infrastructure development</i>		partly	partly □ possible
<i>Business activities in the region</i>	Spillover effect	yes	Yes
	Development of small and medium enterprises who service for foreign companies.	partly	Growth through local subcontractor
<i>Innovation</i>	New technologies	partly	yes * a new faster building construction methods, * construction a underbuilding concrete and iron pipes for seismic stability
	Products	yes	yes (for a first time in region construction a skyscraper 40 flats)
	Organization	yes	yes
	Process	yes	yes
	Marketing	partly	yes (using new marketing methods, new pricing policy the higher it is the more expensive)
<i>Environment responsibility</i>		yes	yes
<i>Social responsibility of companies</i>	Based on country origin and international experience	partly	yes

On the other hand, Turkish companies contribute to the development of other areas of social life, such as culture, sports, etc. Here are some examples: Limak - Macedonia is sponsoring the basketball federation, Cevahir Holding sponsors Basketball Club - MZT, Halk Bank is a sponsor of the Balkan Volleyball Federation and the Handball Federation of Macedonia, while D'S Damat is the general sponsor of the Macedonian football federation.

The graphs below show work permits and data on tourism respectively. It is noticeable that most of the work permits are issued to Turkish citizens, and after 2009 there is considerable growth from this aspect. Also, according to the number of tourists and night spent in the country, tourists from Turkey are in first place.

Figure 5.

Work permits for Turkish citizens and tourist and nights spent figures



Source: MAKSTAT database.

✓ Cost - Benefit analyse

The countries that import capital are concerned about the effect of FDI on national welfare. There are a number of benefits, but also costs associated with the flow of FDI. Based on the analysis of the situation in Macedonia, the following SWOT analysis can be made for Turkish companies.

Strengths	Weaknesses
<ul style="list-style-type: none"> - Tax ambient - Achieved level of privatization and a solid level of economic reforms - Developed banking system - Convertibility of Turkish lira - A solid level of higher education staff - Educational staff that speaks Turkish - National treatment of foreign investors - Free trade at zero or relatively low customs rates - Existence of free economic zones - Shortly needed time for company registration - Possibility to use tax benefits - Favorable geographical position - Access to European markets, through bilateral, regional and multilateral agreements - Macroeconomic stability - High-skilled and relatively inexpensive workforce - Developed telecommunication infrastructure 	<ul style="list-style-type: none"> - Economic and political instability - Insufficiently developed infrastructure as a whole - Not yet recognizable locations for attracting FDI - It is located in an unstable security-political region - Limited natural resources - Distrust in judicial and legislative power - The size of the market - Relatively small purchasing power - Administrative barriers - Insufficiently developed sector technological base - Insufficient level of know-how (special managerial skills) - Long and slow procedures for the time needed for closing down companies - No out to sea/land covered country
<p>Opportunities</p> <ul style="list-style-type: none"> - Perspective EU and NATO membership - Commitment to the Government of the Republic of Macedonia for creating a favorable environment for attracting FDI - Further development of the financial market, and strengthening of the banking sector - Investments for construction of capital infrastructure objects - Education reforms in line with the needs of the development sectors - Greater utilization of human resources (reducing the outflow of labor abroad) - Inclusion in international transport and energy corridors <ul style="list-style-type: none"> - Better use of existing free trade zones and establishment of new ones 	<p>Threats</p> <ul style="list-style-type: none"> - Continued political crisis and stagnation of new investments on the market - An unresolved dispute with the name and uncertainty of the membership of the Republic of Macedonia in the EU and NATO - Unfavorable demographic trends and a high outflow of quality, highly educated workforce abroad - Serious competition from countries in the SEE region - Low level of reinvested capital and potential outflow of capital from FDI - Non-flexibility of the labor market (slow retraining and mismatch of educational programs with the needs and demands of foreign investors)

The analysis shows that Turkish companies, as well as other foreign companies, besides the advantages and opportunities of the Macedonian economy for investment, are faced with certain problems. By removing barriers to foreign companies and joining Macedonia in NATO and promising EU membership will provide significant growth in investments.

5. Importance of Non-economic Factors for FDI

Some of the main non-economic factors with a significant impact on economic growth and social development are: culture, religion, the role of the family, the class, tradition, the role of the individual, social and political dependence, the role of government, language as a resource of human capital, factors that belong to social pathology, etc. Some other variables are also used in contemporary economic empirical research, such as democracy, the rule of law, the state's share of spending in the economy, legal structures, colonial countries, the index of economic freedom, etc.

If we look back on our topic, apart from the political and economic relations between Macedonia and Turkey, there are deep historical ties, which give rise to common interests from the aspect of culture, history, education, science, defense, health, tourism and other areas.

FDI can also be used as a foreign policy tool to win an ally. From that aspect, in our case, we can point out the importance and impact of FDI on deepening the relations of Macedonia with *Turkey as a soft power country in the region*, and this will, in particular, contribute to the strengthening and deepening of the cultural relations and other non-economic areas that could contribute to the economic development of the host country.

The Turkish ethnic community in Macedonia and the emigrants/expatriates from Macedonia in Turkey, are strengthening the friendly relations between the two countries. Family and personal ties have greatly contributed to the improvement of economic relations between the two countries.

The cooperation is intensive in the following areas: culture, history, education, science, defense, health, tourism and others. Since 2005, Turkey, through the Turkish Cooperation and Coordination Agency (TIKA) in Macedonia, has implemented around 950 projects worth over 60 million Euros.

According to a survey conducted in the period from 15 November to 1 December 2013 by the Macedonian Center for International Cooperation and with the participation of the citizens of Macedonia, the results of the poll entitled "Global Leadership and Neighboring Countries" Turkey is preferred by most "friendly country" with a 16%. Also, on the poll "The Best Allies of Macedonia" with a rate of 16.6% of the votes, Turkey was again ranked first.

Turkish television series, films and channels have become more and more popular in Macedonia. This has an impact on the creation of curiosity, as well as the tourist potential for both countries. In recent years, a growing number of people from Macedonia are visiting Turkey, learning Turkish and striving for the Turkish lifestyle. This is especially important for their contribution to cultural diplomacy.

By 2015, within the framework of various military assistance programs, Turkey donated military equipment worth over US \$ 20 million to Macedonia. In March 2019, in the Government session of Macedonia, again, the military financial assistance from the Turkey was placed on the agenda.

Starting from July 1, 2014, Turkish lira (TRY-949) was introduced as a convertible currency on the NBRM exchange rate list. This situation allowed residents of both countries to make payments through Turkish lira.

6. Opportunities and Recommendations for a more Effective Partnership

In the next period in Macedonia, special treatment in stimulating should be made on metallurgy, construction, processing and certain services that are the main bearers of the country's economic growth and gross domestic product. Macedonian companies must maintain the quality and price of the products in order to replace the import and to perform in Turkey and other foreign markets which will contribute to the increase in exports. Here we can emphasize that the 21st century is a time of intellectual competitiveness. Therefore, as a dominant national interest, two demands are set before each country: the production of minds and the creation of conditions for those minds to retain and exploit their potential. In order to achieve this goal, besides other policies, the policies for attracting FDIs should be continued.

Turkey consistently manages to transform its cultural soft power in the Balkans into economic power. FDIs

from Turkey have a positive impact on the socio-economic development of Macedonia. Turkish businessmen are mostly interested in investments, but also for joint cooperation in the sectors of production of machines, textiles, furniture, steel structures, auto parts, technology, mining, construction, tourism, health, agriculture, and food industry. In the future, based on the Free Trade Agreement with tax exemptions and quotas for agricultural products and live animals, apart from increasing the volume of trade, it will affect new direct investments in these sectors in Macedonia.

Bilateral trade schemes between the economy of Macedonia and Turkey show that increasing the volume and quality of bilateral trade between the two countries requires two things: more inflows of foreign investments in sectors with higher added value and simultaneous economic transformation. It is also necessary a detailed consideration in the sector of exchangeable goods and to study its comparative advantages and competitiveness.

Apart from products in branches of traditional sectors, there is an intention of producing and exporting products with high added value. Especially products with halal standards can increase the trade potential, but also the production in Macedonia. It is possible to consider the possibility of increasing the capacities of Macedonian firms or joint production with Turkish companies and taking place on the market of products with halal standards in the countries of the Middle East and North Africa. The markets of the Middle East and North Africa are significant markets with over 400 million inhabitants.

Within the framework of the long-term strategy for economic growth and development, it would be very useful to identify the sectors that will be the main force of the Macedonian economy, and thus to develop a sectoral strategy for such sectors. According to the chambers of commerce, the following sectors are highlighted as the most important and should pay attention to: metal, metalworking, machinery and electrical industry, mining, tourism and construction. This will largely have a clear message to potential Turkish investors, but in order to have a positive impact, programs, plans and activities of the institutions of the system need to be realistic and achievable.

Turkish companies are also developing in the financial sector, manufacturing, construction etc.. In particular, the investment and trade should be increased in the medical sector; on the other hand, Turkish investors should consider investment opportunities in the agriculture, insurance and IT sectors, tourism (hotels, ecotourism, ski resorts, etc.) in other branches of the service sector. Turkish companies should analyze investments in already existing companies in the Macedonia, as well as joint investments. Turkish investments are not seen in strategically important sectors such as the oil industry, energy, telecommunications, for which in the future, the opportunities, that may arise from the new market conditions, should be closely monitored.

Obviously, the advantages of the free economic zones are not used enough by companies from the Turkey and have great potential for cooperation.

The establishment of financial and health free zones may attract the attention of Turkish businessmen. Special economic zones for only Turkish businessmen and industrialists can contribute to increasing investment and the volume of foreign trade. Of particular importance is the possibility of deepening the cooperation with the Macedonian Stock Exchange, which has recently experienced a growth of 120%.

Turkish construction companies need to focus on infrastructure projects, as capital infrastructure facilities that have recently been realized in the country have changed the structure of the construction business sector, from residential to infrastructure construction. In particular, hydro-construction in the future will have a great rise in the construction of hydroelectric power plants. Particular importance is given to the chance of increasing the cooperation in various areas of the economy with special attention to the construction sector and the establishment of joint ventures, encouraging bilateral or multilateral joint investments in their own or in third countries.

New projects have been announced by Turkish companies for Macedonia for the near future, with the assumption that they will reach nearly two billion euros in total investments, one billion US dollars of trade and thousands of jobs. Turkey, in order to protect its image that has been built over the last ten years, needs

to urge, or intervene through its official institutions on companies that are launching as big potentials, and have no feedback.

The intergovernmental Macedonian-Turkish Commission for Trade and Economic Cooperation which was passivated in 2008 should be activated. Also, the fairs in which Turkish products are promoted will be a positive contribution. Also, as its have been announced by the Macedonian government in March, in order to attract investments and strengthen bilateral relations, they will establish centers at the level of trade attache in Germany, the United States and Turkey.

Turkey should follow the EU's "Berlin Process" to the Balkan countries and to take care of the policies that are in its favor. The Berlin process was initiated in 2014 from Germany, and after Berlin this summit was held in Vienna, Paris and London. At the Western Balkans Summit in Trieste, held in July 2017, apart from the political integration of the region, the European Union aims to integrate the Western Balkan countries economically into a regional economic community in the fields of energy, transport and infrastructure. Also, standardization, homologation, trade union and digitization are the few global challenges that need to be taken into account. The Berlin process aims to create a framework for promoting relations between the countries of the region in order to achieve economic development and growth, ie to achieve accelerated reforming progress in the interest of faster integration into the EU.

In this way, Turkey to be successful need to revising its medium and long-term investment policies which can help to be one step ahead of other international actors in the region (EU, USA, Russia and China).

At the SEECP summit in Istanbul in June 2010, the Turkish Republic's desire to make the region "a center for infrastructure, transport energy projects and financial transactions" was expressed. The future strategic projects of the transport corridors (8 and 10), the Turkish Stream, the Silk Road, etc. will be very important in the next period for Macedonia. All this makes the Turkey an extremely important economic strategic partner for Macedonia. At the same time, the space occupied by Turkey is an important energy corridor and a terminal for Europe. Therefore, in all future plans and decisions, we should anticipate the strength and potentials of this geopolitical and geoeconomic space. Also, special attention should be paid to transport. China's 16 + 1 initiative (+ Greece) offers great perspectives for Macedonia. China's ambitious project The silk road (worth 124 billion dollars) is connecting the East with the West and offers free flow of goods and investments, as well as financial cooperation where Macedonia and Turkey benefit.

Of particular importance are the investments in the Balkan road and rail infrastructure with the ultimate goal of connecting all the major cities, economic centers and main seaports in the region and creating conditions for greater economic development.

With the development and investments in aviation, there will be an additional positive impact on the economic relations between Macedonia and Turkey.

Various programs are under consideration to support the development of economic cooperation. Of particular importance are the loans from Eximbank, the convertibility of Turkish liras, and others. In particular, the terms of the loans from Eximbank should be revised taking into account more favorable loans from other governments and financial institutions in order to become more competitive. Also, in the forthcoming period depending on the value of the Turkish lira, the flow / outflow transactions between the two countries may increase.

Turkey, in the Macedonian economy, plays the role of a regional power center, a tourist center, a source of investment and the successor to the country's important historical heritage.

The Macedonia, as a small, open economy, in order to maintain long-term growth should continue to support attracting FDIs, but the support and export orientation of domestic companies is certainly important as well. The human connection, cultural interactions and trade interaction relations between Macedonia and Turkey are very important to be kept.

7. Conclusion

The good political and legal framework for economic relations between the two countries is fairly well established, but improving the economic sphere is lagging behind the political sphere and is taking away a longer period of time.

Also, Turkish investments in Macedonia positively (directly and indirectly) affect the socio-economic development of the country.

It can be concluded that economic cooperation and relations between the two countries are going up and that there is great potential for cooperation that has not yet been used.

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