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ASSESSMENT OF FOREIGN DIRECT INVESTMENTS IN WESTERN BALKAN COUNTRIES, THE CASE OF MACEDONIA

Aleksandar Kostadinov, postgraduate student at the University of Bologna

Abstract

The paper assesses FDI in Western Balkan countries and attractiveness of Macedonian clusters. The first part is consisted of macroeconomic data on FDI in Western Balkan countries, expected FDI in the region based on forecast function. The second part shows competitiveness of two Macedonian clusters. According to the Macedonian Investment Agency, automotive and food processing industry are considered as a high competitive on a regional level and industries with high potential to attract Foreign Direct Investments (FDI). For this purpose, I have build a match-making matrix of this two clusters, based on an article and methodology proposed by: S. Young, N. Hood and A. Wilson in "Targeting Policy as a competitive strategy for European Inward Investment Agencies"- European Urban & Regional Studies-1994

Keywords: FDI, Governmental policies, Regional competitiveness

Introduction

The term Western Balkan, has been used for the first time in the beginning of 1990's and is often explained as Yugoslavia minus Slovenia plus Albania. Western Balkan countries are also in a political and economic context described as a "black hole" of Europe as a result of lacking cooperation with the rest of Europe and slow reform process toward modernization and democratization of their societies.

Western Balkan countries occupy an area of 196,047 km², with population of around 21 and a half million citizens. Despite the bloody wars and conflicts during 1990's and heavy downturn of their economies, WB economies in the last 5-6 years have grown fast and predictions are that they will continue to perform well. In 2005 all WB countries have generated an output of 88,816 million of US\$ with an average growth of 4.7%.

Table 1. Macroeconomic outlook of the WB countries

Country	Area (km ²)	population 2006	GDP (current 000 US\$) (2005)	GDP growth (annual %) -2005	GDP per capita US\$ in 2005
Albania	28, 748	3,129 678	8,380,314	5.5	2678
Bosnia and Herzegovina	51,066	3,907,074	9,948,769	5	2546
Croatia	56,594	4,443,350	38,505,553	4.3	8666
Macedonia	25,713	2,034,060	5,766,178	4	2835
Serbia and Montenegro	88,361	8,064,253	26,215,215	4.7	3251
Total	196,047	21,578,415	88,816,029	4.7 (average)	3995 (average)

Source: own calculations based on World Bank online database and IMF data statistics

As a result of political stabilization of the region and efforts made by USA and EU, WB countries are attracting more and more FDI every year. During the period of 2002- 2006 stock of FDI has reached 18, 318 million US\$ of which 3/4 were located in Croatia and Serbia and Montenegro. Other countries, for example Macedonia, still remain non attractive and have attracted less than 500\$ per capita during the period of 2002-2006. However, WB countries compared to the World share are very attractive for FDI and all have ratios above the average.

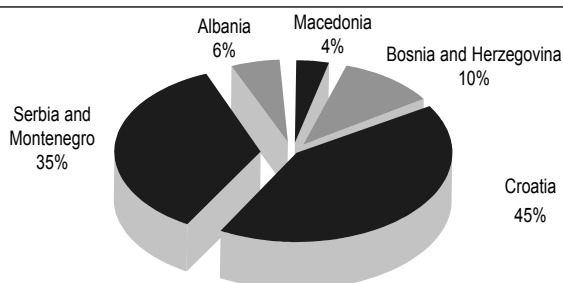
Trade policies and strategies remain weak point of all WB countries and they all prove high trade deficits in the last decade. Trade deficits range as a share of GDP from 20 to 25%, except Bosnia and Herzegovina where this share was around 47%. Trade liberalization and recent signing of CEFTA agreement, probably will increase trade deficits because WB countries had high protective measures of domestic production, especially for agricultural products. After disintegration of Yugoslavia and fall of communism in Albania, WB countries have partially liberalized their economies and new reforms toward market based economy have started. FDI still vary from year to year, but shows positive trend during the period of 2002-2006.

Table 2. Foreign direct investment, net inflows (million US\$) in WB countries

Country	2002	2003	2004	2005	2006	FDI stock (2002-2006)	population 2005	FDI/per capita (stock 2002-2006)
Macedonia	77	96	157	100	280	710	2034060	\$ 349
Bosnia and Herzegovina	267	381	612	299	350	1909	3907074	\$ 489
Croatia	1123	2056	1224	1761	2000	8164	4443350	\$ 1,837
Serbia and Montenegro	137	1360	966	1481	2450	6394	8064253	\$ 793
Albania	135	178	341	262	225	1141	3129678	\$ 365
Total	1739	4071	3300	3903	5305		21578415	
Total FDI stock 2002-2006 WB countries	18318							

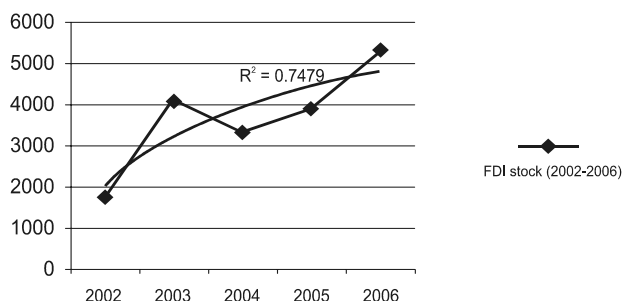
Source: own calculations based on World Bank online database and The Vienna institute for International economic studies

Chart 1:
FDI stock (2002-2006)



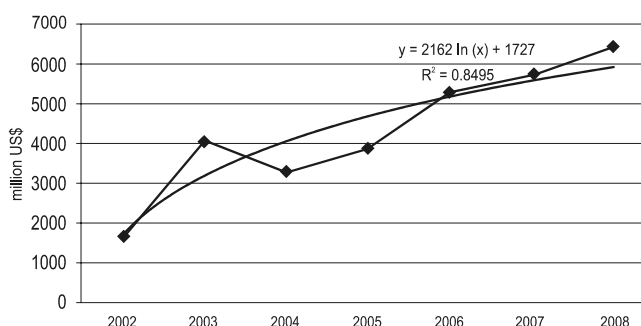
Year	2002	2003	2004	2005	2006
FDI stock WB countries	1739	4071	3300	3903	5305

FDI stock (2002-2006)



By using Excel, forecast of FDI in 2007 and 2008 in WB countries, would have the following figures.

Year	2002	2003	2004	2005	2006	2007*	2008*
FDI stock WB countries	1739	4071	3300	3903	5305	5753*	6449*

FDI stock (2001-2008)
in million US\$ (forecast)

Match making matrix⁵ of the Macedonian clusters

The matrix is meant to measure the contribution that a given sector can contribute to the development of the regional economy and on the other hand, competitiveness in attracting particular industrial sector. For the purpose of this matrix, I have focused on the automotive and agribusiness sector in Macedonia.

For this sector I have a rating for each element that signals the economic impact of the given sectors, and for the same sector I have a weigh value that this sector attributes to each location factor. The task is to assign a weight to each economic impact variable that is thought to be very important for the development of Macedonian economy and to rate strengths and weaknesses for each specific location factor⁶. (S. Young, N. Hood, A. Wilson 1994)

5) Match making matrix is based on a article of the authors: S. Young, N. Hood, A. Wilson

6) This methodology is based on own judgments, therefore is it essential to be realistic and selective

Automotive industry in Macedonia

Macedonia is already manufacturing and exporting a range of automotive components mainly for the aftermarket in Europe, Russia, Turkey and Africa. Products exported include seat belts, clutches, gears, springs, multi-layer printed circuit boards, pneumatic and brake systems. The country is particularly suitable as a location for the manufacture of high value to weight labour intensive products such as safety systems (seat belts, airbags), electronics (controllers, sensors) and precision plastic products. (PriceWaterHouseCoopers 2006).

Economic Impact indicators ⁷	Weight	Rating	Value
Employment			61
Wages and Salary levels	4	3	12
Proportion of service jobs	3	3	9
Proportion of skilled job	5	4	20
Track record of working with universities and research institutes	3	4	12
Level of training expenses	4	2	8
Trade & Balance of payments			59
Volume and value of exports	4	5	20
Local sourcing	5	5	25
Complexity of components	2	4	8
Current volume of imports	3	2	6
Technology transfer			29
Level of innovation/ R&D	2	4	8
% of personnel in R&D	2	4	8
Centralized vs. Decentralized R&D	2	2	4
Track record of working with universities and research institutes	3	3	9
TOTAL			149

Location factors ⁸	Weight	Rating	Value
People			46
Skilled labour	4	5	20
Labour costs	4	5	20
Multi-Lingual personnel	1	4	4
Productivity track record	1	2	2
Physical & Market infrastructure			61
Distribution cost and system	4	5	20
Judicial system	4	1	4
Success of other companies	5	5	25
Proximity to University & Research Institutes	4	3	12
Business environment			55
Political and Social stability	4	3	12
Financial and Fiscal incentives	4	5	20
Tax system	3	5	15
GDP rate of growth	2	4	8
TOTAL			162

7) Weight measures the correspondence of the variables to the local economy needs (1 less important - 5 very important).

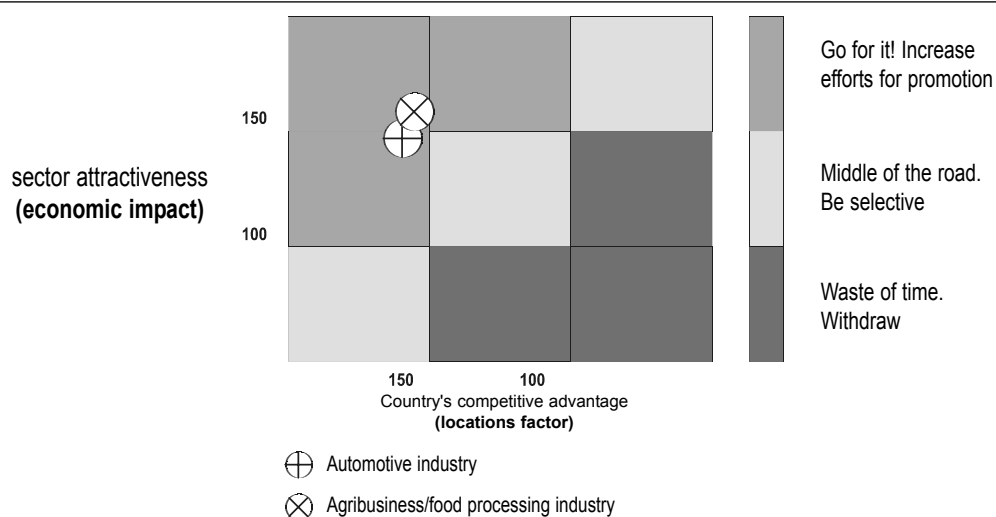
Rating measures the industrial segment attitude to satisfying local needs (1 less relevant - 5 very relevant)

8) Weight measures in relative importance assigned to each location factor by the industrial sector's investors (1 less important-5 very important). Rating measures the actual and potential strengths and weaknesses of the country (1 less relevant - 5 very relevant)

Agribusiness and food processing industry:

Macedonia's EU accession process will involve substantial technical assistance and investment support funds dedicated to the sector. The sector's numerous competitive advantages include a unique combination of Continental and Sub-Mediterranean climates, environmentally friendly production practices, sound food processing technologies, highly qualified labour available throughout the rural areas, very good access to regional markets and a reputation for quality food products. (PriceWaterHouseCoopers 2006)

Economic Impact indicators	Weight	Rating	Value
Employment			43
Wages and Salary levels	4	4	16
Proportion of service jobs	3	1	3
Proportion of skilled job	4	3	12
Track record of working with universities and research institutes	2	4	8
Level of training expenses	2	2	4
Trade & Balance of payments			64
Volume and value of exports	3	5	15
Local sourcing	5	5	25
Complexity of components	3	4	12
Current volume of imports	3	4	12
Technology transfer			45
Level of innovation/ R&D	3	3	9
% of personnel in R&D	2	4	8
Centralized vs. Decentralized R&D	3	1	3
Track record of working with universities and research institutes	5	5	25
TOTAL			152
Location factors	Weight	Rating	Value
People			46
Skilled labour	2	4	8
Labour costs	5	5	25
Multi-Lingual personnel	1	1	1
Productivity track record	3	4	12
Physical & Market infrastructure			48
Distribution cost and system	4	5	20
Judicial system	2	3	6
Success of other companies	4	4	16
Proximity to University & Research Institutes	3	2	6
Business environment			61
Political and Social stability	4	3	12
Financial and Fiscal incentives	5	5	25
Tax system	4	4	16
GDP rate of growth	2	4	8
TOTAL			155



Both clusters observed have shown competitive advantages for the location factors of 162 and 155 for automotive and agribusiness sector and economic impact values were 149 and 152 respectively. Those values are enough to place both clusters in the highest priority for the country's attracting FDI. This methodology approves the fact why Macedonian Government and MakInvest agency have chosen these two clusters as priority and invest constantly for their promotion worldwide. Employment subsection of the economic factors table has big impact of overall scoring as a result of well trained and low cost labour. Macroeconomic subsection also favours cluster's value as a result of low inflation rate, stability of the tax system and exchange rates etc. However, weak point still remains the part of University cooperation, R&D, productivity level of Macedonian workers and technology transfer. In this part we can find the answer why agribusiness cluster has been chosen as a "strategic" cluster in a time when hi-tech are favoured among European countries.

Conclusions

FDI plays major role in the western Balkan economies. As far as privatization process has finished and there are less state owned companies, western Balkan governments are facing to run budget deficits that are not sustainable on a middle term. Attracting FDI is top priority to all WB countries not only to finance their budgets, but moreover to improve their economic performance and standard of living.

Although there are many reforms and tax incentives in the last two years, Macedonia proves weak responsiveness to attract FDI and is the last country with FDI per capita in the Balkan. Good geographic position, market access to EU, South East European markets and relatively good infrastructure makes Macedonia attractive country for FDI. Stronger economic cooperation among WB countries would uphold stability in the region, increase trade volume and promote the region as a good and safe place to invest. Promoting deeper cooperation among the countries, (not only trade liberalisation) but building networks among Agencies for promotion of FDI, Business communities and transfer of know how would lead to improved allocation of FDI and possibility for decentralised production sites among the countries.

Match making matrix have shown good perspective for the two clusters already chosen by Macedonian Government, but still, this is only estimation and does not represent any empirical experience. In my opinion, Macedonian agrarian sector is still underdeveloped and it would need heavy investments and good and sustainable governmental strategies in order to satisfy pre accession EU funds requirements and achieve better attractiveness for FDI.

The experience of Central European countries in attracting FDI could be repeated in WB countries if new signed CEFTA agreement would be respected. High inflow of FDI can increase efficiency of the production and introduce new products on the markets, but still depends on the reasons of investment and "target" companies.

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