

Strategies of economic development of Macedonia, the opportunity of involvement of the country in regional and world economic trends

Mr. Harun Tairi

State University of Tetovo

Abstract

The time that we live in is the time of general actions with a lot of dynamism and changes in different segments of life. A process is developing where the nation-states are linking with each other through multinational corporations and through the mediatory financial institutions despite the size of their territory or the number of their residents. Globalization it is not present in all the places in the world with the same shape and intensity. In places where globalization is more present the benefits are higher, while in the places where globalization is less present the benefits and the advantages from the globalization are smaller. This makes the places to open their economy and join the global economy.

Macedonia declaratively admits that its integration in this global process is one of its political priorities, however how much and in what way this policy is applied and how is realized is a debatable issue because it still has not joined how it should in the

global economical rhythm. Macedonia since 1992 started to build economical and political relation with the international community and until the 2005 achieved to get the status of a candidate for a membership in EU, a position that imposed Macedonia to make the harmonization of several regulations with those of EU. Macedonia in this period has signed a lot of agreement for a free trade. Macedonia, despite the declarations and the cooperation for integration in this global process again is facing many economical and political problems. In Macedonia, there is a weak competition of economic entities and of the overall economy, inefficient judiciary, interethnic tensions, high unemployment, high interest bank etc. Macedonia has no alternative other than its connection to the global economy that can be achieved through the implementation of structural economical long-term reforms. If a radical turning won't be taken for this situation, not only that the roads will be closed for the inclusion of Macedonia in the global economy, but the risk to buried the hopes for an acceleration of social economic development in general, and the development of democracy and rule of law.

Globalization is not present in all countries in the world with the same intensity and form.

In the countries where it is more pronounced there are bigger benefits, while in countries where globalization is less presented the benefits from globalization are smaller too. This encourages countries to open their economies and engage in global economy.

Macedonia claims that its integration in this worldwide process is one of its political priorities. However how and how much this policy it is implemented and realized is a debatable issue. Today Macedonia is faced with numerous problems, both political and socio-economic ones. She forgets that the time in which we live and act is full with dynamism and changes. There are big changes in all segments of life. Changes have occurred also in the past, but unlike nowadays, the world has embraced the changes late, especially in Macedonia.

Development in communication technology has been applied almost in all spheres of human life. The development of communication technology and speed intensity and pace of economic development have given. The Type text or a website address or translate a document.

Quantity and volume of production and services worldwide have never reached this level. The opening of the economy of one country to the global economy has resulted in the development of international trade as never before.

The globalization takes parting every segment of the contemporary life. It is present in economy, politic, law, sociology, language, movie, culture, music, international relations, communication, environment, etc. The full understanding of the globalization requires studies and analyzes from different points of view, because in society changes happen in many spheres. The economic globalization is distinguished with the freedom of action of the enterprises outside the states boundaries, which have as a primer goal the maximization of profit. In the global society a special place

has the concentration and the centralization of the financial capital which Macedonia doesn't have it.

The raise of the volume of production it's one of the characteristics of the globalization, and is especially distinguished in these sectors: industry, trade and the sector of services. The international trade it more liberal than it ever was.

The globalization is included in each segment of contemporary society. Type text or a website address or translates a document. It is present in the economy, politics, law, sociology, language, film, culture, music, international relationship, communication, environment, etc. Knowledge and understanding of globalization requires comprehensive study and analysis by many angles, because the company processes in many areas. The direct foreign investments are more present in the economy of the countries.

No doubt that the increase of a country's economic growth depends on a number of factors. Among them are: increased productivity, increased accumulation, saving, investing, the country's natural resources, the level of professional knowledge and human knowledge etc. With the aim of increasing economic growth recently more importance is devoted to the advancement and the improvement of human capital, the savings, establishing institutions and social policy, protection of property rights etc. In this segment an important place has the liberalization of trade is that increased economic efficiency by making rational allocation of natural resources

1 Macedonia's integration

Integration of Macedonia and other counties with small economies into the global economy is more than necessary. Today almost all agree that the act of integration represents one of the main conditions that increase a country's economy. Macedonia since 1992, begins to build economic and political relations with the international community and especially with European Union. In 1997 it managed to implement major steps towards cooperation with the European Union. Since 1992 Macedonia begins to build economic and political relations with the international community and especially with European Union. In 1997 it managed to implement the major steps towards cooperation with the European Union. So this year in April 29, 1997 was signed the agreement for cooperation between Macedonia and EU in the framework of which several agreements were signed as: agreement for the transport, the textile agreement, the agreement to put, financial cooperation protocol etc.

This enabled Macedonia to borrow loans and other financial resources from various institutions and programs of the EU. The year 1999 will mark the biggest turnaround in the relations between Macedonia and the EU, because then begun the preparations for the agreement about the Association and Stabilization. The first phase of this process last till 2001 when Macedonia signed the contract of Association and Stabilization. It was the first contract of this kind that EU Signed with a West

Balkan state. In April 2004 the contract for Association and Stabilization was enforced and Macedonian economy gained privilege in the market of European states in comparison with the non member states. In 17 December 2005 Macedonia achieved to get the candidate status for membership in EU and Adriatic Charter together with Albania and Croatia. The current position of Macedonia imposed it to harmonize a lot of regulative with those of EU. This happened also with the policy of foreign trade where a special part has the harmonization of customs law.

The establishment of the Free Trade Zone within Western Balkan states now it's not anymore just an idea, but a reality. This step would help enough the increase of market trade, attracting direct foreign investments and economic development of these countries. The establishment and function of CEFTA is a good experience from which we understand that the member states of this kind of integration gain a lot from the raise of trade, the FDI and economic growth. SEFTA (Southeast European Free Trade Area) will surely be a lead to the membership of Western Balkan. Within this integration is forecasted that despite the trade with goods, a subject of agreements to be the sector of services, intellectual property and the protection of the right for intellectual property. The operation of this kind of integration will be a good image for these countries, and the trust of foreign investors will increase. Macedonia has also signed CEFTA. CEFTA represents forum of former socialist countries which show interest to intensify the relations between them. Most of the members of CEFTA are already members of EU, so lately the importance of this association has decreased. Macedonia joined the other three members of CEFTA, Bulgaria, Croatia and Rumania, which means that the trade between Macedonia and the other members of CEFTA will be liberated. A part of the goods that are part of the trade, immediately will be free of custom taxes, while for some goods the customs taxes will gradually decrease till the elimination of these taxes. CEFTA for Macedonia has a special importance and it means deepening of the economic cooperation, liberation of the market, joint participation in foreign markets and exchanging experiences with the countries that are members of CEFTA.

The biggest step toward its economic global integration Macedonia made it with its membership within the organization of world trade. This was realized after an activity and long self denied work in April 2003. Membership in this organization has advantages and benefits but also the responsibilities and the obligations are not small. Macedonia in this period also signed a number of contracts for free trade with its neighbors. Macedonia has implemented 11 contracts for free trade from which 9 were made in bilateral bases in this countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldavia, Rumania, Serbia and Montenegro, Turkey and Ukraine, and two of them were in multilateral bases like the agreement for free trade with the countries of EFT and the agreement for Stabilization and Association in EU. With the mentioned countries Macedonia realizes free trade in different percents of liberalization.

These kinds of contracts have included the total elimination of costumes and other quantitative limitations in the trade between the parts that were contracted. Despite the full liberalization this contracts have foreseen the regulation of many

other issues such as: technical barriers in trade, sanitary and phytosanitary measures, regulations of the origin of goods, antidumping data and compensatory, protective measures from increased imports, public supplies, etc.

If analyzing period from 2005 - 2008 will prove that R.M. every year marks a growing deficit trade (because the greater percentage of import) even though every year we increase trade exchange, so if we analyze 2005 will we see a trade exchange value of USD 5,275,133 thousand, where the export has taken part with 38.7% (2,042,296 thousand USD) while imports by 61.3% (USD 3,232,837 thousand) which represents a cover of imports by 63.2% for export trade deficit and the value of 1,190,542 thousand USD.¹

This growing trade deficit continues in 2006 with the value of 1.362.000 thousand USD since the export was USD 2,400,715 thousand or 39% of commercial exchange and the import this year also was the highest, with a value of 3.762.715 thousand USD or 61% of the market trade. In 2007 the trade market was in value of 8.583.823 thousand USD which was 39.3% higher than in 2006. The export in this year in Macedonia was 3.356.248 USD while the import was 5.227.576 thousand USD where the coverage of export with import is 64.2%. From this we understand that the market deficit was 1.871.328 thousand USD which represents 37.4% higher value than in 2006.

Not in 2007 and not even in 2008 the market trade didn't achieve to decrease the trade deficit in the balance of payments even though the trade market in 2008 was for 31.8% higher than in 2007. Rather every year that comes there is an inevitable trade deficit, which in the period January-November 2008 the value get to 2.662.629 thousand USD which is 42% higher than in 2007. According to the state Statistical Office, the value of export in Macedonia in 2008 was 3.748.123 thousand USD while the import was 6.410.753 thousand USD. This means that the coverage of export and import is only 58.5%.²

The biggest partner with whom Macedonia develops the trade in the field of export and import are: Serbia, Germany, Italy, Croatia, France, USA, Turkey, Bulgaria, Slovenia and Russia. With some of this countries Macedonia has achieved to have a trade surplus. Since 2001 the trade between EU and Macedonia was regulated according to the agreement of Stabilization and Association. The industrial and agricultural products were exported in a free way by excluding three agricultural products (veal, fish and wine), for which the EU set the annual quota. The industrial products of EU can be imported in Macedonia according to a gradual reduction of customs for a transitive period, which ends in 31.12.2010.

Similarly, in the period from January to November 2008 in Macedonia greater participation in the export of goods have the member states from EU 27 (59.4%) and Western Balkan countries (35.5%), while imports of goods have greater participation of EU countries 27 (47.6%) and developing countries (31.6%).

1 Source: Ministry of Finance (www.sei.gov.mk).

2 Evaluation of State Statistical Office.

Is good to note the presence of products in trading exchange in the recent years. According to the Export Statistics greater participation has feronikli, then iron and steel products, textile and tobacco. In import mostly are present the oil derivates, electricity and vehicles. Usually when it comes to foreign investment what is maenad is foreign direct investment. According to the U.S. Department of Commerce's, foreign direct investments are defined as the value of the investment firm whose purchase is over 10%. Approximately the same is the definition of FDI States and the World Bank and IMF, while the scientific journal "The World Investment Report 1997", FDI-be is defined as "investments affecting long-term Relations and reflect the interests and control a wide range of residential living in an economy ..."

Investment portfolio or indirectly represent the form of investment where the investor is "passive" and is not interested in managing or controlling assets and operations of the firm which invests. The main goal and it is only one is profit. He owns less than 10% of the number of shares that the company has available. Buying a small piece of property without control over the company is considered as portfolio investment and is not subject to our treatment this time.

Although at first glance these two forms of foreign investment seem to be the same, however they differ enough among themselves. One of the differences is that portfolio investments are investments that have short term that is not the case with foreign direct investment. Investment portfolio could quickly be withdrawn from the firm to be filled in other firms. One difference is that portfolio investments have it as its goal the rate themselves as higher interest rates, as distinguished from FDI investment portfolio, because the investor FDI States except capital firm invests in people and technologies, knowledge, methods, experience etc. This boosts the investors to be interested in leadership, control and Management Company which invests. What form of investment will be entitled to a foreign investment will be identified by who controls the response company in which investment is made. If the foreign investor has direct and effective control over the company's foreign investment it is called direct investment (direct) foreign, and vice versa, if the foreign investor has no control over foreign investment in the company, than the investment is called portfolio investment.

Benefits of the host country of foreign direct investment are numerous, but will distinguish these: Increasing the number of employees in the country, revenues in the form of taxes, increased competition in the internal market, decrease in monopolistic profit, enhanced quality products, inclusion in the international market, etc. Utility and benefits shareholders and other places have so "home country" among them would mention: transactional corporations benefit advantage by paying low wages to workers abroad, technology transfer and opening of new markets, increase production capacity improvement of export, etc. FDI has a great importance in the running economic development of Macedonia. They are also important in terms of advancing the process of production, transfer of technology, optimal utilization of production capacity and better organization of work. Macedonia since its independence cannot be satisfied with FDI. During the transition period it was always the last place in terms of foreign direct investment. Greater amount of FDI-s (449 Million USD) performed

in 2001, when denationalize telecommunications. FDI in 2003 failed more than 80 million USD in comparison with the previous year had a slight increase of 2.8 million USD. FDI 2007 is 330.8 million which compared to 2006, marks a decrease of 19.9 million USD nominal increases of 8.8% compared with 2006.

The biggest investment in 2007 was conducted in the financial mediation with a value of \$ 107,190 thousand or 32.4% of FDI, the industry invested \$ 72 982 thousands or 22.1% of FDI in the sector for electricity, gas and water have been invested \$ 67,870 thousands of FDI, etc. The distribution of the FDI in 2007 in the amount of \$ 330,802 through thousands of different sectors can be seen in the table below:

TABLE 11.1 — *FDI in Macedonia 1997-2007. Source: State Statistikal Office of Republic of Macedonia (www.stat.org.mk).*

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
30902	112308	38079	152270	449104	77812	80643	139000	116200	350700	33080

States that have achieved greater value in RM FDI in 2007 are: Austria 90.5 million \$, Slovenia 53.3 million \$, Bulgaria \$ 45.7 million, France \$ 30.2 million. In 2007 a higher valued than FDI there is in the Mediation Sector where are invested 107.2 thousand USD. In 2007 workers in 1655 increased compared to the situation in 2006. Gross average wage for a labour in 2007 in the business subjects with FDI is 27 828 denars and shows

TABLE 11.2 — *FDI through different sectors in RM. Source: State Statistikal Office of Republic of Macedonia (www.stat.org.mk)*

	Value in thousands USD	Structure in %	
Total	330,802	100	Total
Agriculture	3,040	0.9	Agriculture, hunting and forestry
Xehtari	13,272	4	Mining and quarrying
Industry	72,982	22.1	Manufacturing
Electricity, gas and water	67,870	20.5	Electricity, gas and water supply
Construction	16,168	4.9	Construction
Trade	14,816	4.5	Wholesale and retail trade
Hotels and restaurants	11.500	3.5	Hotels and restaurants
Communication and connection	16.675	4.4	Transport. Storage and communication
Financial mediation	107.190	32.4	Financial intermediation
Estate firm, renting and business activities	8,051	2.4	Real estate, renting and business activities

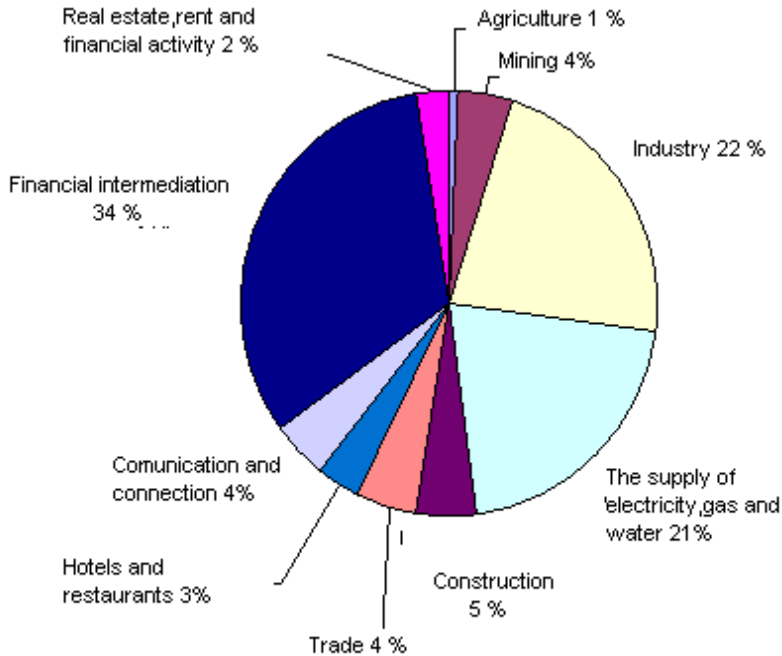


FIGURE 11.1 — Data (%) shown in a pie chart.

Causes of such a small investment in Macedonia FDI are numerous, but most important are:

- Stagnation in implementing structural economic reforms
- Broken legislative sector reforms
- Malfunctioning due and not judicial trends
- The presence of organized crime corruption
- No safety and unstable political situation, etc.³

In fact, together with Kosovo and Macedonia and Bosnia and Herzegovina present less developed countries within the SFRY. For years Macedonia even within that community constantly was marking decrease in GDP, negative trade balance, increasing the number of unemployed, had an old technology and worn and decreases in the welfare and living standards of the population. Macedonia's economy depended mainly by joint Yugoslav market. It was nearly 75% focused on producing raw materials for production capacities of other republics where was distinguished the metallurgy industry, textile industry and its chemistry. Almost one quarter of Macedonia's next export was in the in textile products, while the fifth was in the sale of iron and steel.

3 Kikerova Irena : International Economy, Skopje, 2003. Source: State Statistikal office of Republic of Macedonia (www.stat.org.mk)

The first 5 years of the independence of Macedonia passed in the mark of biggest crises of this country. In this period GDP had a reduction in average from 5.4%, where in 1993 it was amounted to -9.1%. While in 1990 GDP per capita was \$ 2.235, in 1995 had a reduction to \$ 1705. This situation was improved after the successful realization of the Program for stabilization, so in 1996 the country's GDP was stabilized. Here without doubt pretty important role have played different foundations and donators from Europe and beyond. In the next years Macedonia will sign free trade agreements with some neighbour countries, while very important is the moment of signing of the Agreement for cooperation with the European Union. In 2003 Macedonia will become member of the World Trade Organization and her economy was liberalized almost completely.

After year 2000, Macedonia's economic structure undergoes minor changes so the industry in 1997 was 29% of the GDP, while in 2003 was reduced to 24%. In the same period there were changes regarding the involvement of the service sector. So from 51% as it was in 1997, was increased to 56%. Basing in the report of the global competition which is organized by the World Economic Forum in 2007 Macedonia was ranked in 94th place from 131 totals instead. This ranking is ten places below then a year earlier. The weakest ratings of Macedonia are in: inefficiency of state administration, access to finance, corruption and the economic instability. The higher rankings are: macroeconomic stability, inflation and the devisor course.

Foreign direct investment in 2005 reached 116.2 million U.S. dollars and compared to 2004 they are decreased to 23.3 million dollars. According to State Institute of Statistics the biggest foreign direct investments in value of 74.8% U.S. dollars, are from the developed countries, 55.3 million U.S. dollars which are from EU countries and 16 7 million dollars from countries-members of EFTA. The biggest investment is in the processing industry where invested 54 million dollars are and also in extraction of minerals and stones where are invested 26.6 million dollars. Participation in these activities in foreign direct investment reaches 69.4 percent.

Total number of employees in the business entities with foreign direct investment in 2005 grew to 3132 employees, compared with the situation in 2004. Also from China, Russia and Germany is expected support to speed up the steps towards the EU.

Macedonia must in future to focus on certain segments in order to go forward and benefit from globalization. The steps that will be taken are:

1. Leadership of an open economy policy
2. Leadership of a policy of attracting foreign direct investment especially Greenfield and export oriented sectors
3. More rational use of European funds

2 Conclusion

Globalization above all is victory of the multilateralism and market economy. The Keynes concept on state intervention in the economy, definitively in the last decade of the 20th century suffered total defeat. Neo-liberal theory prevailed and remained confident in the development of the economy. Countries which support the theory strongly are also the most developed countries in the world such as: USA, Japan, Germany, Italy, UK, etc. Lately we have intensive economic development in a number of state who until recently have been developing countries. Within these states are taking part also the so-called BRIK countries (Brazil, Russia, India and China). According to a German Bank approach, BRIK states in the 21st century will dominate the world economy. China now has trillions of dollars in monetary reserve, India has developed high technology, and the other two countries have nuclear weapons production.

Macedonia has no alternative but to conduct an active policy for its inclusion in the global economy. We underline this, because Macedonia still today is not sufficiently involved in global economic procedures. We can even see higher walls between Macedonia and EU countries. With the recent actions (visas for the citizens of Albania) further complicates the integration of its economy and opening to the world economy. This confirms to us that the Republic of Macedonia has not yet emerged from a period of transition mainly because the fault of the policy that it leads. RM have also internal problems: the long and non-transparent procedures, corruption, inefficient judiciary, ethnic tensions, high bank interest rates, high unemployment, the construction mafia, political pressure, etc.

Republic of Macedonia feels weak competition of economic entities and the economy as a whole. Macedonia if it wants to reach the world economy, then will have to realize long-term economic structural reforms. Macedonia's economy should be opened as much as possible and this opening to be used wisely and efficiently maximized. In this context, Macedonia must provide quantity and quality of goods and services to world market demands. So to change the structure of export structure that is also the country's economy. Traditional economic branches (such as agriculture) is not leading the economy forward, but have committed resources in the industry, especially in the services sector. Even if they develop the agriculture, it should not be developed without plan, but should take place in organizational structure. In addition to changes in the structure of international exchange, first of all it should be done with more countries, not only with a small number of countries.

Changes and advancements must be done in terms of access to the FDI, because they include only 2% of GDP which is very little compared to other countries. Special importance should be given to FDI "green-filed" and those branches that are export oriented). Also, foreign investors must be offered special packages to attract FDI and persuade them to great profit and not for rehabilitation of the local economy.

Macedonia is in situation where (a candidate for EU member) a number of

European funds will be “flooding” the country. It should rationally use the European funds by developing their own capacity to govern the European funds. This could be done in the best way if it generates projects which will be implemented effectively.

3 Literature

Agency for Foreign Investments of the Republic of Macedonia, Macinvest (www.macinvest.org.mk).

European Sector for Integration (www.sei.gov.mk).

Ilia Kristo: *International Business*, Tirana, 2004.

Irena Kikerkova: *International Economy*, Skopje, 2003.

Joshua S. Goldstein: *International Relations*, Tirana, 2003.

Mansfred B. Steger: *Globalization, A very Short Introduction*, Oxford, 2003.

Ministry of Finances (www.finance.gov.mk).

Ministry of Economy in R.M (www.ekonomy.gov.mk).

Musa Limani: *European Economic Integration*, Prishtina, 2004.

Office for Statistics in R.M. (www.stat.gov.mk).

Skender Berisha: *International Economy*, Prishtina, 2002.

