Why hasn't Macedonia Succeeded for a Long Time in Absorbing Foreign Direct Investment

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Abstract

Recently, almost all countries of the world without exception, developed countries or the developing countries are attracting foreign direct investments. The reason is that there is no dilemma that the benefits of foreign direct investments in the host countries as well as domestic countries are greater than the damage that they can have.

Western Balkan countries also follow this trend for attracting foreign direct investment. Some of them have achieved notable successes, while the others have achieved less success. Macedonia is a country that during the last two decades, ranks among the countries with smaller number of foreign direct investments.

In the paper which I have chosen to analyze, in the start I gave a general overview of the meaning, role and importance of foreign direct investments for economic development of a country. Later I have analyzed the trend of foreign direct investments in the region, and especially in Macedonia. At the end are sought and given reasons for locking foreign direct investment in Macedonia and recommendations to overcome such a situation.

Key Words: foreign direct investments, portfolio investments, green field, acquisition, merger.

1. Introduction

Foreign direct investment is undoubtedly one of the main factors which will stimulate the economic growth in a country and world. Markets both with foreign direct investment (FDI) are recognized as engines of economic growth. FDI is investment that is realized by foreign investors, so it is an investment of production factors which crosses state borders of a country in order to achieve profit. In the theory of economic thought FDI are considered one of the most important resource for economic development. These investments are welcome for any country, especially when the country is lacking or is insufficient in domestic investment. So for attracting FDI are concerned developed countries, countries in transition and developing countries.

On the other hand foreign investors in recent years have been very active. They are investing in different countries of the world, not only to realize fat profits, but have also played a crucial role in the development of the economies of those countries where they invest. Benefits for both countries such is the host country and the domestic one are much more than damage.

FDI in different periods of human society had a different shape and intensity. This economic activity is known since the 16th century, but with the development of capitalism, the role and importance of FDI grew significantly. Transfer of capital across national borders was an innovation in the context of FDI. This activity is accomplished mainly through the international capital market, in the form of a loan, portfolio investment, but also other factors of production investment. International funding during this time aimed not only winning, but in itself often contained political purposes. Developed countries such as Great Britain, France, and Germany invest in various sectors such as mining, plantations, ports, infrastructure in the African and Latin American countries. Great Britain was the world power before the First World War and possessed 45% of world FDI stock in 1914 (Wafo, 1998).

During this period, FDI-known in the Persian Gulf that finance oil exploration, then those in India who financed the cultivation and collection of tea and many global infrastructure as tools in the field of energy and electricity, traffic, communication and industry. After World War II, the leader in FDI became U.S. with giant companies, such as: General Motors, IBM, and ITT. U.S. in 1960 was estimated to have 48% of global FDI (Wafo, 1998). Later in the eighties of the same century, average global FDI increased annually by 30% which means their growth is three times faster than the average world export or four times faster than GDP behold the world average.

At the end of the last century and the beginning of this century, FDI reached their highest level. Interest and attraction of FDI penetration was like never before, while most developed countries developed their strategies as maximizing profit from FDI. Factors that most influenced the growth of large FDI recently are: (Wafo, 1998, p.10)

- Transformation of state property into private property
- Liberalization of the international market;
- Economic Integration and
- The establishment and functioning of the WTO

Transformation of state property into private property is a phenomenon not only for transition countries, but a phenomenon that began in the second half of the previous century in developed countries, especially in Great Britain, Germany and France. In transition countries, privatization was a key element of economic reforms. Privatization is also a phenomenon of developing countries in the Latin American continent as well as in Asia and Africa.

The liberalization of international trade represents the second important factor that influenced the growth of global FDI. Uruguay Round achieved greater success in eliminating barriers of international trade, the progressive liberalization of the foreign investment regime and major technological changes. The Internet and especially the development of e-commerce stimulated and accelerated as ever increasing foreign direct investment. During this great round FDI began to liberalize by adopting a series of laws and regulations that aimed at facilitating the penetration of FDI in different countries of the world.

Economic regional integration today operate anywhere in the world. They also contributed a lot to the growth of FDI's. Economic integration in the framework of its members uses many privileges and advantages that non-member countries do not have. If economic integration is at the highest level, then the liberalization of FDI is higher and vice versa.

Undoubtedly the great contribution in the growth of FDI has the establishment and functioning of the World Trade Organization (WTO). With the establishment of the WTO in the context of which is the multilateral agreement on investment, FDI virtually have little obstacles and barriers of movement from one place to another place in the world.

Multinational companies are the main actors that impact on the growth of FDI globally. The number of multinational companies of the so-called "parents" at the global level has exceeded 61,000, while the number of their subsidiaries reaches 900,000 (Hill, 2007, p.12).

2. The meaning of Foreign Direct Investment

Usually when it comes to foreign investments considered for two types of investment:

1. Foreign portfolio investment – FPI and
2. Foreign Direct Investment – FDI

Foreign portfolio investment represents a form of investment where an individual, firm or public entity invests in foreign financial instruments. Foreign financial instruments are securities of the type of stock, bonds, treasury bills, etc. These investments are mostly concentrated on: pension funds, mutual funds, investment trusts, insurance companies, banks, etc. The role of investors in the investment company is "passive", i.e. one has no right of control or governance of the company. The main and only goal is the realization of profits. The value of the investor who owns shares in this type of investment is less than 10% of the total shares of the firm.

Foreign direct investments are investments that are associated with the movement of production of goods and services across the border. This means that FDI are investments that are realized when an individual or firm invests production factors outside the state borders of the country in order to achieve its main goal which is profit. Despite foreign portfolio investment, FDI are investments where the investor's role is "active" meaning that it has the right to perform the function of government and control of the company.

From what we have said above, we can clarify the distinction that exists between FDI and FPI's. FDI differ from FPI because FDI investor realization of investment has the right to perform the function of government and control of the company, and when the investor realizes investment FPI's, he has no right to govern or to control the company.

Another difference between these two types of investments is that FPI are investments whose term is short, while the term FDI is over. The owner of FPI usually invests for shorter deadlines and can quickly withdraw shares from a firm and place them in any other firm. Rapid transfers cannot occur with FDI.

Also another difference between them is that the main aim and motive of FPI is that the dividend rate to be much higher, while FDI main motive other than profit is achieving positive results in the business of the company in a longer period of time.

FDI at the same time differ from FPI by the fact that FDI investor in the company invests the technology, knowledge, methods and experience which is not the case of investments of FPI's. Such action requires the investor of FDI to be concerned for the direction, control and management of the enterprise in which he invests.

So, recognition and easy identification of an investment to which the form belongs, FDI or FPI is if the answer to the question whether the company is governed and controlled by a foreign investor. If a foreign investor has the right of governance and control of the enterprise, then investment is called foreign direct investment, and vice versa, if the foreign investor does not control and does not govern the company, then the investment is called foreign portfolio investment. So, the essential difference between FDI and FPI is that FDI are real or physical asset investments such as utilities or equipment, but not treasury bonds or other forms of securities.

Shareholder or buyer country is called the "home country", while the country where it is investing (buying firm) is called the "host country". Organizational unit abroad is called "foreign subsidiary".

FDI in form how they can act when buying overseas firms, may be two forms:

1. "Green Field" which means that the buyer invests in tools and wholly new firm that starts from zero and
2. Acquiring or merging M & As - is when the investor takes the firm, which has been operating in advance

Which form is preferred depends, above all, from the point of view on the investment. Both forms have their advantages and disadvantages. If FDI is seen from an investor's perspective, then we can say that without a doubt the form of the acquisition or purchase is preferable for investors.

Investing "Greenfield" takes advantage of the fact that the investor's work starts from scratch, i. e from zero. It plans building everything as it thinks is best, so there is no barrier precaution, which may adversely affect his work. However, the defect and the disadvantage of Greenfield- is that the time of the return of assets invested (ROI) is longer than the form of acquisition or purchase.

According to Hill (2007) acquisition or purchase of the firm has priority over form "Greenfield" on three main issues:

a) Rapid return of invested assets;
b) Strategic Assets owned by the firm;
c) Increasing the efficiency of acquiring firm.

The main aim of the investor is to maximize the profit, but not neglecting faster return of funds invested. The shorter coefficient of ROI is very important for him.

Another advantage of this form of FDI is the fact that this form of FDI does not start everything from the beginning, but the firm that bought marking its own buyers, distribution system, renowned, etc. Investor who invests capital can modernize existing technology in order to increase labour productivity, increase and improve the skills of the company's management staff and increase the chance for a better organization and management.

Also another advantage of this form is that the investor with the act of buying the firm, has also eliminated a competitor in the market.

On the other hand, if we look FDI from the perspective of the host country, especially in developing countries, we will see that they mostly prefer investments "Greenfield". This is understandable when this type of investment is aimed at building new facilities, creation of new jobs, bringing new technology, etc.

Also it should be noted that companies that invest in foreign countries mostly prefer their investment form "Greenfield" to realize in developed countries, because these countries' infrastructure, political and economic situation is much better than those of developing countries.

3. The role and importance of FDI in a country`s Economic Development

All countries of the world always need new investments. New investments require the commitment of the factors of production. This lack of production factors is felt especially in financial means. Funds are usually borrowed from commercial banks or other sources that have high cost. One of the sources of safe and affordable prices for the commitment of funds in the production process is undoubtedly foreign direct investment. Host countries were offering all sorts of conditions favourable to foreign investors to invest in their country. They compete over who will attract more foreign direct investment.

According to Hill (2007) regarding ideological approach to FDI, there are three theories: radical free market perspective and pragmatic nationalism. The first theory dominates in countries with free market economies. This theory supports FDI because FDI stimulate economic development. Despite this theory, controlled economies reigned view that FDI should not be accepted, because they do not help the country's economic development, rather they harm the local economy. Furthermore, according to this theory, FDI are instrument for the exploitation of underdeveloped countries by developed countries. The third FDI approach is pragmatic. This theory supports FDI provided that their benefits outweigh the costs. So with this thought FDI are supported in those cases where the FDI benefits are greater than the losses.

The role and importance of FDI in economic development today is clear and without contention. Developed countries as well as developing ones are doing the best they can to achieve more and more FDI. With doing this they have more perspectives. Those countries which in this respect are more successful have good chances for future economic development. The best arguments for this emerge from countries like Brazil, Russia, India and China (BRIC). In the last twenty years their FDI volume increased highly. Just in the last year, China had attracted FDI inflow of more than 121 billion USD (UNCTAD, 2013, p.15).

Multinational companies when entering foreign market prefer more FDI than other forms and strategies. The main reasons are as follows: cost of transport, market faith strategic behaviour of companies, cyclical life of production and location-specific advantage.

The high cost of transport of goods is one of the most common causes that the company chooses FDI in the country of export. This mostly applies when exported goods whose value is small, and have high transport costs. For example the export of water at a large geographic distance is not good and not so useful for the company.

The market is not always able both to perform its functions perfectly. Disadvantages presented by not perfection of the market, forcing companies to not always rely on the export of goods, but to take concrete steps in the realization of FDI's. Such cases can easily be present in markets when governments make decisions that restrict or prohibit the import of goods by various means to limit the international market.

The company decides to undertake FDI in a country for strategic reasons. Oligopoly market is dominated by few companies. Each company must react on the basis of actions taken by one of the companies. So if one of them decides to enter the foreign market, then other companies should do this too. If other companies do not follow the company's action, then it carries advantages in foreign markets and the same priority is used in the domestic market. So in this way one of the companies can win the race against other companies.

Life cycle of production (Werner theory) is also one of the reasons that the company undertakes FDI. Production goes through several stages (cycles) and after passing the stage of maturity, the company undertakes FDI in the foreign market.

Natural resources are one of the main factors which determined the company to undertake FDI. Thus, in place of coal mines is logical to concentrate power plants for producing electricity, or where there are textile raw materials and a large number of population, it is a good idea to build capacity for the production of textiles.

Also another very important reason is the economy of scale. Economies of scale mean mass production. The crucial issue is the fact that the corporation has a cost saving. Corporation is able to do different combinations between its subsidiaries in several countries. Thus, the same technology which is used in a subsidiary may be used in other subsidiary, or expenses incurred for research and development in one branch may be used in another.

4. FDI trends in Western Balkan countries and Macedonia

FDI is one of the key activities in the Western Balkan countries. This economic activity helps a country's economic growth a lot. The trend of FDI in the Western Balkans countries is presented in table 1.

Table 1: FDI, net inflows, Western Balkans Countries, 2007-2013, million USD

Country name	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Albania	662	958	964	1.109	742	920	1.254
Bosnia & Herzegovina	2.071	982	240	231	432	335	315
Kosovo	603	537	408	457	568	293	343
Macedonia	693	586	201	301	509	333	376
Montenegro	934	960	1.527	760	401	618	446
Serbia	3.432	2.996	1.935	1.340	2.700	1.187	1.974
Total:	**8.341**	**7.020**	**5.271**	**4.198**	**5.330**	**3.686**	**4.708**

Source: Own calculation with Data from the World Bank, (World Development Indicators 2014)

If we compare foreign direct investments that were realized in recent years in Macedonia with FDIs in the region, we will see that it holds the last place. This is despite the efforts and commitment that the government of Macedonia has been doing for years. Reasons for this situation are numerous, but it is an undisputable fact that Macedonia is not a suitable place for foreign investors. Although, the official representatives cast the blame to the global economic crisis, especially that in the euro zone, reality is different, because other countries of the region are realizing much greater investment volume. Real reasons must be sought in: the rule of law, public administration professional development, creation of normal conditions for security of investment, development of infrastructure and facilitating business development in the country.

Table 2: Participation of FDI in Macedonian GDP for 2010-2013.

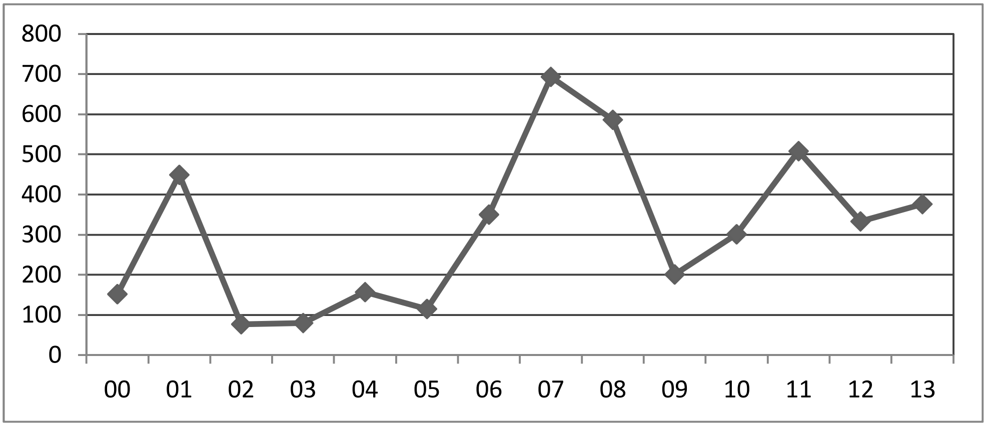
Years	2010	2011	2012	2013
FDI (mil.USD)	301	508	333	376
GDP (in mil.USD)	9.339	10.395	9.576	10.195
% GDP	3.2	3.3	3.5	3.7

Source: Own calculation, UNCTAD (2015, p.216)

The table clearly shows that the highest recorded FDI in Macedonia has stagnated for years. It does not follow the regional trend of the region and their low participation in the country's GDP significantly affects the pace of economic growth. This is not enough if the country wants to become competitive in global markets. (Gosevska, Popovski, Markoski, 2013)

The question is why Macedonia needs FDI greater volume? The answer is simple. It needs funds which over time is lacking. Macroeconomic projects provided that there must be economic growth of 4-5%. To achieve this growth, the economy of the country should invest every year 25% of GDP. From the experience Macedonia cannot realize even approximately, and therefore needs to import financial resources. There is no dilemma the import of financial assets with better conditions are FDI than borrowing from the commercial bank.

Figure 1: FDI Trend in Macedonia for 2000-2012 (in million USD)



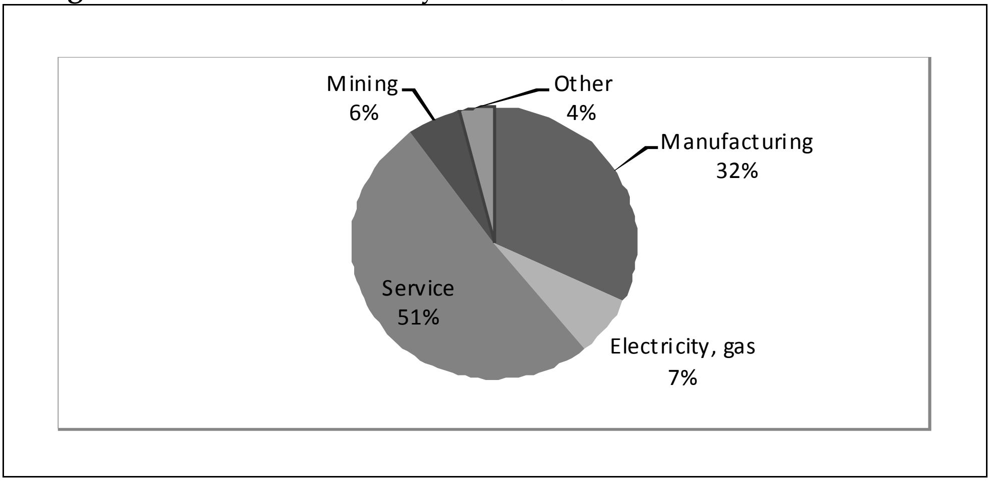
Source: Own calculations with data from the World Bank (World Development Indicators 2015)

The growth in FDIs and improvement of this situation was not managed even after the announcement of eleven free economic zones. Currently, only two or three serious companies perform their activities in these zones, while most of them resemble the empty meadows. Unfortunately, even with these small numbers of FDI-s, there is unfavourable structure. Investments of so-called "green field" are even smaller. Host country benefits from this type of FDI are higher and they serve as incentives for economic development. Attracting foreign investment and being attractive to foreign investor requires, above all, to build the rule of law, to increase labour productivity, labour skills and innovation, then to liberalize the economy and build a good international image of the country.

4.1. FDI in Republic of Macedonia by branches of economy, 2013

Greater investment by economic branches in Macedonia in 2013 was carried out with 51% service branch, while in the second place is manufacturing sector with 32% of the whole FDI. Participation of both these sectors in total FDI in 2013 is 83%. Hopes to increase FDI in Macedonia become real if Macedonia joins the European Union framework. So far, the country cannot be satisfied, because there is no investment from major global companies. Known companies that have so far invested in Macedonia are: Johnson Controls, Johnson Matthey, T-Mobil, Societe Generale, NBG Bank, etc.

Figure 2: FDI in Macedonia by branches, 2013



Source: Own calculation, Macedonian State Statistics, Statistical Review (2014)

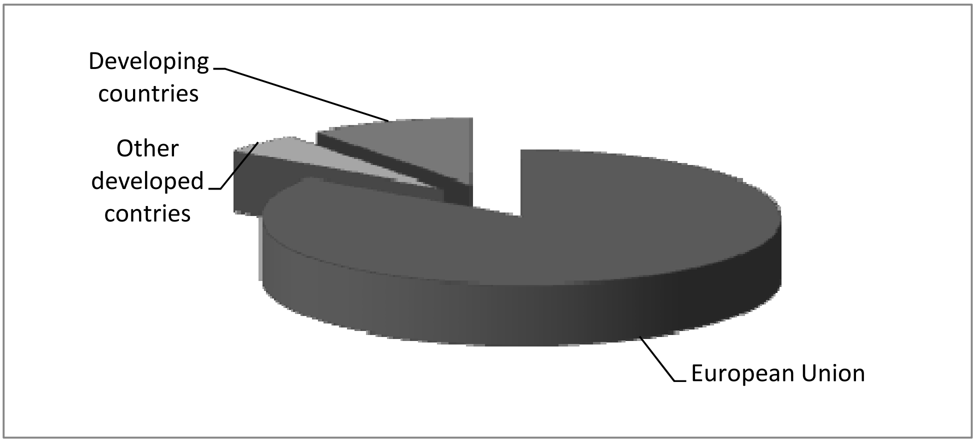
Table 3: FDI of foreign states in Macedonia by countries in (000 USD)

	2010		2011		2012		2013	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Austria	238.3	9.4	334.6	11.3	362.6	19.5	371.9	11.10
Greece	387.1	15.2	450.7	15.2	380.3	12.1	431.5	12.9
Hungary	421.2	16.5	410.6	13.8	388.7	12.4	346.8	10.4
Netherland	431.3	16.9	435.6	14.7	523.6	16.7	545.4	16.6
Slovenia	165.8	6.5	262.8	8.8	391.2	12.4	415.7	12.4
Others	903.5	35.5	1074.7	36.2	845.0	26.9	1230.4	36.6
Total	2545.2	100.0	2968.7	100.0	3141.4	100.0	3350.7	100.0

Source: Own calculation, World Bank Report (2014)

Countries who mostly invested in Macedonia in 2013 are: Netherland with 16.6%, Greece with 12.9%, Slovenia with 12.4% and so on.

Figure 3: FDI in Macedonia by countries in % for the year 2013



Source: Own calculation, The Vienna Institute for International Economic Studies (WIIW), FDI, 2014

4.2. Causes of low level of FDI in Macedonia

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

- Insufficient progress in implementing structural reforms of the economy: in Macedonia, the structural reforms of the economy are still stagnate
- Lack of proper functioning and alignment of justice: a large number

of court cases are dragged and end up with a long epilogue. Such a situation gives the impression of non-functioning of constitution and law. Foreign investors fear about the status of their property if they invest in Macedonia.

- The presence of organized crime and corruption: the phenomenon of corruption and organized crime is quite present in the country.
- Lack of security and unstable political situation: Macedonia since its independence is faced with the problem of insecurity and political instability. In the starting years wars took place around the neighbourhood, which inhibited foreign investors to invest in Macedonia. Political instability has permeated even more with the unstable domestic situation that ended up in the ethnic conflict of 2001 between Albanians and Macedonians. This political situation has refrained foreign investors and has had a direct impact on the low level of FDIs'. Even after signing the Ohrid Agreement, Macedonia is in the most unfavourable situation in the region concerning FDIs.
- Market size: Macedonia is not a large market for foreign investitures. This makes the country an unattractive place for foreign investors. Foreign investors prefer large markets to launch larger quantity of goods. Macedonia has been trying to overcome this handicap by signing free agreements with its neighbours.
- Weak infrastructure. The use of Internet in Macedonia is very well present even at public administration. Thus, a large number of communication activities are carried out through Internet. In particular, it should be noted that the waiting time for company registration is reduced to four hours according to the recent data from the Government representatives.

5. The main factors that affect the efficiency of the FDI

A large number of countries in the world, until a short time, were not available to foreign direct investment, eventhough large number created all sorts of sanctions in not accepting the IDH-s in their countries. Thus, through various barriers they lock preventing domestic enterprises any step about joining any foreign firm (the formation of joint ventures) or eventually selling the entire company to foreign buyers. There are also restrictions on the amount, the sale of company shares. This limitation of the acquisition of shares by foreign investors is difficult and puts into question the company's business success.

Regarding the factors that affect the volume and efficiency of foreign investment, in the economic literature there are various categorizations. Recently these were given special attention in developed countries as well as those in development. In general, the factors that affect the volume and efficiency of IDH-s may be divided into two main groups:

1. Sustainability and macroeconomic measures
2. Institutional stability

In the first group of factors, the most important macroeconomic are the following: market conditions, inflation, real exchange rate, etc...

Free market economy of a country is a key factor and pre condition in attracting FDI. Market and its mechanisms determine the best need of each sector of an economy. Investor intends to realize maximum profit, and achieving this goal can best be realized in terms of the free market.

Inflation rate is also extremely important for a foreign investor. If the inflation rate is high, then the investor is not interested in making capital investments.

Foreign exchange still has a role to play and its share in the realization of an FDI. If the exchange rate variation and is unstable, then this signal is a risk of investing in that country. Average annual inflation in Macedonia recent years is 2-3%, while the equivalent, its national currency is pegged to the euro (Limani and Hani, 2012, pp.205).

The second group of factors that affect the efficiency and the volume of foreign investments that are the result of political instability the country are classified into:

- Stabile Indicators of the Government - These indicators inform the public about the change of government formation. Governmental changes may occur in accordance with the Constitution or not in compliance with the constitution. Unconstitutional changes with unpredictable consequences. Any change government contains a dose of uncertainty and risk in the context of state institutions. As great as government instability is, the greater is the institutional uncertainty. The most important elements of this group of factors are: the number of revolutions, coup, during demonstrations, the probability of taking power by the opposition, etc... All these elements have a negative impact on the volume and efficiency of foreign direct investment, but it should be noted that revolutions and coup have more negative impact than the number of demonstrations occurred and the probability of obtaining power by the opposition.

- Political violence: has to do with all the events that are based on the domestic political processes of a country. In the context of political violence the most important are: personal uncertainty and property insecurity. As greater political violence, the greater the personal uncertainty and insecurity of property. Sizes which can measure political violence are as follows: average annual number of political killings, the number of strikes, uprisings, armed attacks, political executions, the consequences of war, terrorist acts, etc... All these sizes have extremely negative impact on the volume and efficiency of foreign direct investment, but political executions and the consequences of war are the most powerful.
- Social Insecurity - occurs when state institutions are raped such as: the number of constitutional changes, inflation rate instability etc. The most important indicators of this category are: black market boom, inflation deviation is standardized, frequent change of exchange rate, changing the framework of institutions, etc. All these sizes have its negative impact on the volume and efficiency of FDI, but the strongest impacts have: black market and frequent changes of exchange rate.
- Non-implementation of laws - appear in cases where state bureaucrats legality applies not in one place. Frequent occurrence when the treatment of private firms is not equal to the treatment of those states. Foreign investors are afraid to invest because of the presence of a layer of corrupt government people, the enforcement of low-level state laws etc.

In addition to these factors, which we mentioned above, the volume and efficiency of foreign direct investment affect a number of other factors. The following will give some other barriers that must at least be minimized if we want foreign investment to grow.

Penetration of foreign direct investment, countries realize through certain rules and laws. Thus i.e. some countries prohibit investors to invest in certain "important" sectors which they think are of a special state interest. "And there are also those who do not allow foreign investments in certain geographical regions such as those around the state borders, near the metropolis, etc. Similar barriers were state administrative obstacles and delays, the implementation of high capital taxes or customs fees, special local regulations, prohibition of the sale of land to foreign investors, etc.

There are a number of other factors that affect the volume and efficiency of foreign direct investment. Among the most important ones are: research for new markets and increased trade poker, increased profit through fusion, increase the size of the firm, diversification (distribution) of risk, financial motives, personal motives.

Liberal trade regime and international payments system are important factors that help the growth of foreign direct investment. Large companies always tend to receive greater market for their products, not only within national borders, but also abroad. This is due to the saturation of the domestic market with their products, so the best solution is placement in the international market. Own firm's presence in the country outside the border, enables what more closely may be notified to the requirements, conditions and possibilities of placement of its products in that country. At the same time, his firm being present in the country will have greater control in managing the business of the enterprise.

Increased profits through fusion enable enterprises to achieve higher results in different domains of its activity. Thus activities such as rapidly changing technology, information, market expansion, distribution network, sales, research and development in the case of fusion, require lower costs, but the effects of these actions are great.

In a globalized economy, the size of the company is a crucial parameter especially in the area of research and development costs, expansion of distribution network, the creation of financial services, management and other activities. A major advantage of large companies is the fact that these had the opportunity to move into a larger space and more geographical segments have priority in the collection and enforcement of greater innovation information.

Another factor, which affects the volume and efficiency of foreign direct investment, is to reduce risk through geographic market. Merger or acquisition of an outside firm, enables the avoidance of a number of customs tariffs and customs barriers. Financial motives and personal earnings also play a crucial role in the volume and efficiency of foreign direct investment.

6. What should Macedonia do to upgrade situation in attracting FDI?

Macedonia, a small country on the Balkan peninsula, with an economy also small, but open to the global economy in the future will even more attempt to absorb FDI. Attracting and rational utilization of FDI should be a top priority in this economy. Human resources and production resources exist, but it should be oriented and used as well.

One of the measures that Macedonia should undertake in order to improve this unfavourable situation by attracting FDI is undoubtedly the country's political stability. Macedonia is a multi-ethnic and multi-confessional country, and it affects many of the country's political stability. Any statement without thought and nationalist party leaders, especially those governments, negatively affect the already fragile political situation in the country. The dispute with southern neighbour about the name of the country, has led to the rejection of Macedonia's accession to NATO framework. Compromise on resolving this barrier will relax enough political situations in the country and beyond, which would increase the confidence of foreign investors for a safe and peaceful place.

The Government of Macedonia recently has realized many projects which are not productive such as "Skopje 2014" spent hundreds of millions of Euros, instead of building infrastructure for developing economy. The government budget needs to spend more carefully and more rationally.

The Republic of Macedonia, even has signed a number of agreements with different countries in the region and wider, it need to continue this number to increase. The agreement for avoidance of double taxation, special tax incentives, tax on retained earnings should be offered for more countries and companies. Macedonia is a signatory of three multilateral Free Trade Agreements: SAA (Stabilization and Association Agreement) with the EU member-states; EFTA (Switzerland, Norway, Iceland and Liechtenstein), and CEFTA (Macedonia, Albania, Moldova, Croatia, Serbia, Montenegro, Bosnia and Herzegovina and Kosovo). Even that, Macedonia did not increase a lot the foreign trade especially the FDI, recently. It needs to push more efforts that will benefit from these negotiations. Implementing in real life those agreements are very important for developing the economic activities with abroad.

According to the newly adopted Law on Construction Land foreign companies and foreign citizens can directly own construction land in

Macedonia, but actually there are a lot of barriers and corruption that impact on this process.

Macedonian government also have even more to be involved in the promotion and stimulation of industrial zones. It can increase the mitigation measures in relation to export of goods and services, creating more favourable conditions and incentives for attracting FDI by further reducing taxes and customs fee growth of companies with major investments, especially those green field, construction of the main corridors in the country such as the corridors number 10 and 8 and other necessary infrastructure.

Also a very important area for attracting foreign investors is the overall reforms in the behaviour of the rules and their application. Thus of paramount importance are: simplification of documents to do business, improving the conditions for doing business, improving and implementing company registration system, modernization and provision of documents in electronic form, etc.. Although many of these measures have been adopted formally such as full liberalization of the visa, one-stop shop system or One-Stop - for Cross Border Trading, however, expectations and delays for the registration of new companies, are still too large and cause additional costs for foreign investor and local government.

Another segment very important for the absorption of FDI is also education and training genuine human capital. It is undeniable fact that human capital in Macedonia is educated and trained in a satisfied level, but not specialized enough. The education system in the country still retains many old features from the socialist system where education and school education give more importance to the theoretical than the practical aspect. One such system is not matching with foreign investors, so it is a handicap for greater commitment to local staff. National framework, recently started training and teaching English as a tool of communication and is increasingly present.

7. Conclusions

Foreign direct investments are an important factor in the economic development of a country, but also the Western Balkan countries. Similarly as other countries of the world the following countries recently in its economic development policy have also attracted larger foreign direct investment.

An increase in the foreign direct investment worldwide is ever increasing, while the same thing happens with FDI in Western Balkan countries. This would be of a great benefit if these countries would have more FDI of "green field" type than those of acquisition or purchase.

Macedonia, unfortunately, is not good in terms of attracting foreign direct investment. Since its independence until today nearly every year it ranked in the last place in the list of countries in the region.

The reasons for such a state may be required not only in external factors and the global financial crisis. The fact that neighbouring countries reach enviable results in this direction shows that the key role is played by domestic factors.

Macedonian government in this period of statehood has made significant changes and reforms in social and economic spheres. However, in order for the future to have better results, it should strengthen the implementation of these changes in many social spheres.

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