

THE IMPACT OF DIRECT FOREIGN INVESTMENTS ON EMPLOYMENT - THE CASE OF NORTH MACEDONIA

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ABSTRACT

The beginning of foreign direct investments into a country with the capital enables the entry of new technology. Yet, with the production of foreigners in the country on the one hand reduces the dependence on the other, ie imports, on the other hand increases the export capacity of the country. Foreign investors' operating in the country, means the establishment of new companies and the creation of new business areas.

North Macedonia is the lowest cost per worker in the region. In order to attract foreign investments, Northern Macedonia has minimized the social security shares paid to the worker. However, the introduction of new investments has been encouraged by reducing the cost of social security and tax, which is financially burden for foreign and domestic investors.

Revenues and institutions are among the conveniences applied to encourage foreign investors, tax exemptions and discounts, rawage imports and other customs duties, and regulations in the labor market.

When we look at Northern Macedonia, especially between 2007 and 2020, foreign investors have provided many convenience to ensure that foreign investments enter the country.

In recent years, a noticeable increase has been achieved in foreign investments. In the face of all these developments, the activities of foreign companies in the country, whether directly dependent on production or in the service sector, increased the employment and reduced unemployment. According to the data of the Macedonian Statistical Institute, the unemployment rate in the country in 2010 was approximately 37 percent, while in 2021, this rate decreased to 15 percent. Although the decrease in unemployment is attributed to foreign investments, especially the policies of the fight against unemployment implemented by the government.

Keywords: Foreign Investments, Employment, Unemployment.

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1. INTRODUCTION

In open economies, when goods and services demanded within the country cannot be met by local production they are met with imports from abroad. The import-export imbalance adversely affects the foreign deficit, the current and the balance of payments, and the overall economy. The lack of capital and technology in developing countries restrains local entrepreneurs from investing. Generally, such countries as a way out look for a solution in foreign investments.

While making an investment decision, the investor has to evaluate many criterias. The political and economic stability of the country plays an important role in evaluating the country to be invested in. In addition, the opportunities and incentives provided by countries to foreign investors, especially labor costs, are effective in investment decision making.

The country's economy is dependent on foreign capital investments due to the closure of SEEs from the former Yugoslavia and the closure of the state's capital accumulation to open new factories. For this reason, governments apply policies such as low tax rates, investment incentives, free zone incentives, low labor costs to foreign investors in order to increase the production capacity in the country and to reach new investments.

2. UNEMPLOYMENT AND EMPLOYMENT POLICIES OF NORTH MACEDONIA

The main source of economic problems is that the production came to a standstill as a result of the state economic enterprises that were closed in the first years of independence and the structural unemployment that emerged as a result. For nearly three decades, the North Macedonian economy has been struggling with high unemployment. While the unemployment rate in the country was 36 percent in the early 2000s, as of 2021it was 15.7 percent.

The government of North Macedonia has implemented the policies to increase employment in OECD countries and has taken steps that directly affect employment, such as vocational training for the

unemployed, subsidies for self-employment, and financial support for the employment of existing companies. Macedonia has put these policies into practice since 2007. The number of people using programs to increase employment between 2007 and 2021 has increased every year.

Apart from the above-mentioned policies, the government of North Macedonia is among the direct and indirect policies to combat unemployment in order to solve the unemployment problem and increase employment, including the reduction of taxes paid per worker.

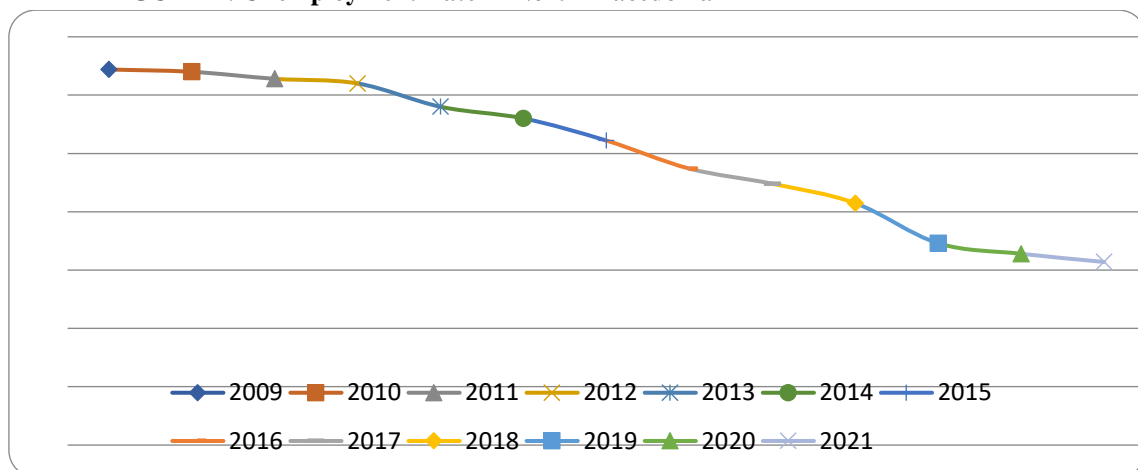
While the main purpose of reducing the taxes paid per worker is to reduce unemployment, the government of North Macedonia does this indirectly by reducing the tax cost paid to the worker, which is a burden on foreign and domestic investors, and to accelerate the increase in employment by both opening new workplaces and increasing the demand for workers by increasing the scale of existing companies. The table below describes the social security and tax rates paid per worker after 2008, 2009-2018 and 2019.

TABLE 1: Social Security and Tax Rates Paid Per Worker

(% SHARE ON GROSS SALARY)			
	2008	2009-2018	2019
Pension and disability insurance	21.2	18	18.4
Health insurance	9.2	7.3	7.4
Unemployment insurance	1.6	0.5	1.2
Additional health insurance	0.5	1.2	0.5
TOTAL	32.5	27	27.5

**Source: Ministry of Finance of the Republic of North Macedonia
Ministry of Labor and Social Policies of the Republic of North Macedonia**

FIGURE 1: Unemployment Rate in North Macedonia



3. DIRECT FOREIGN INVESTMENTS

Direct foreign investment is the acquisition of a company in a country, providing the founding capital for a newly established company or increasing the capital of an existing company, made by companies located in that country to companies located in another country, together with technology, business knowledge and it is an investment that brings with it the investor's control authority (Karluk, Foreign Investments in Turkey, 1983, p.14). According to the OECD, foreign capital is the share of the foreign investor in the company's retained earnings and reinvested earnings, the foreign investor's purchase of shares and debt securities from the parent company through cash and the same capital, the foreign investor's purchases of machinery and production rights from the company, and commercial and other loans provided by the foreign investor. (S.Rıdvan Karluk, Türkiye's Economy, p. 640.).

The fact that foreign investors is active in the country means the establishment of new business areas and new companies. Macedonia has the lowest cost per worker in the region. In order to attract foreign investments, North Macedonia has reduced the social security shares paid to the worker to a minimum. Corporate and income tax from 15%; was reduced to 12% in 2007 and to 10% in 2008, making it the lowest tax in the region and even in Europe. With this measure, it is aimed to increase the foreign investments, to ensure the economic growth and to reduce the unemployment rate.

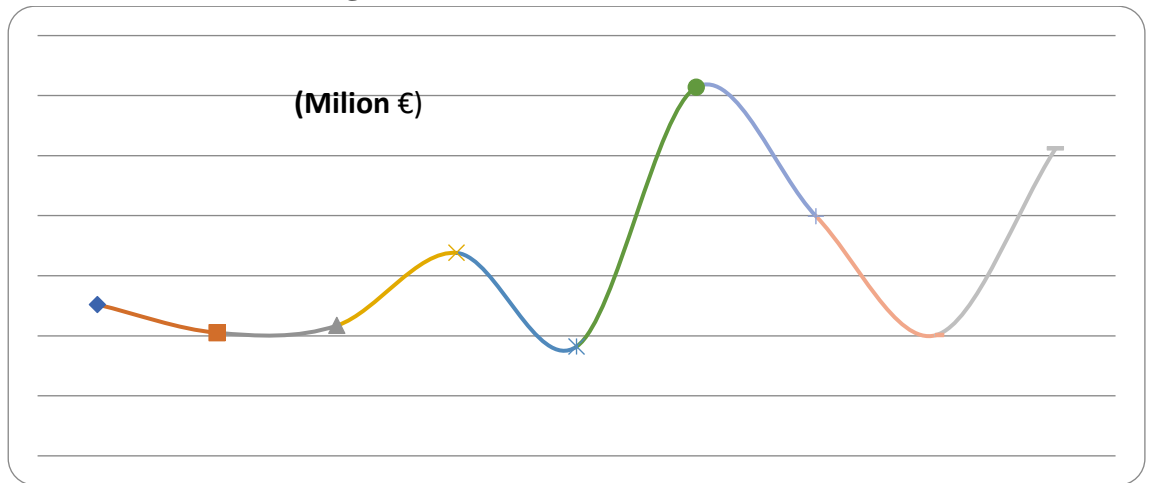
Tablo 2. Doing Business 2019 raporuna göre iş kurma / yapma sıralamasında K. Makedonya Table 2. North Macedonia in starting / doing business According to Doing Business 2019 report

Ease of Doing Business	Business Setup	Construction Permits	Getting electricity service connected	Real estate registration	Getting a Loan	Protection of low share partners	paying taxes	Foreign trade	Contract Performance	Bankruptcy Order
10	47	13	57	46	12	7	31	29	37	30

Source: <https://www.doingbusiness.org/>

According to the Doing Business 2019 report; North Macedonia ranked 10th out of 190 countries in terms of ease of doing business. In this respect, North Macedonia is the most successful country in the Balkans. However, as a result of the political crisis that broke out in the country in 2017, the inability to form a government for a long time caused those who wanted to invest in the country to review their decisions. In addition to the political crisis, the new government's withdrawal of commercial attachments that were previously active in attracting investors in many countries of the world and promoting North Macedonia and abandoning this practice, and the acceleration of reforms by neighboring countries to attract investors, caused foreign investors to go to other countries in the region. As a result, foreign direct investments that wanted to enter the country could not gain a stable course.

Tutarı FIGURE 1: Foreign Investment Amount in North Macedonia



4. CONCLUSION AND EVALUATION

In order to attract foreign investments, North Macedonia has reduced social security shares paid to workers to a minimum. As of 2020, the average gross monthly wage in North Macedonia was 43,509 Macedonian Denars (710 Euros), while the average net monthly wage was 29,130 Macedonian Denars (475 Euros). The minimum wage is 18,000 Macedonian Denars (293 Euros).

Despite the fact that North Macedonia is unrivaled in the region in terms of social security plays paid to workers and costs per worker, it cannot be said that it has had a great impact when looking at foreign investments entering the country. When we look at the cause and effect relationship, it is seen that foreign investments in North Macedonia do not increase despite low labor costs, in short, the sensitivity is low, on the other hand, as a result of the entry of foreign investors, employment increases in the country and the unemployment rate decreases.

In general, in the period of 2009-2021, the activities of foreign companies in the country, whether directly related to production or in the service sector, showed a tendency to decrease unemployment while increasing employment. According to the data of the North Macedonia statistical institution, while the unemployment rate in the country was 37 percent in 2010, this rate decreased to 15.7 percent in 2021. Although the decrease in unemployment is attributed to foreign investments, there is also the effect of the government's policies to combat unemployment.

The most important criterion for foreign investors to invest in a country is to create an environment of stability and trust. Although developing countries such as North Macedonia have reduced their investment costs (such as tax exemption or low tax rates, costs per worker, land allocation) in order to attract foreign investors and have taken important steps in this regard, political and economic stability and an environment of trust, as well as a well-functioning justice, legal and as long as there are problems in areas such as the judicial system, bureaucracy, ease of institutional and administrative procedures, investors will be less likely to prefer that country.

Finally, the economy of North Macedonia, which is a country with insufficient production power and capital and open to imports, has to

ensure economic growth and development due to foreign investments and privatization in order to improve basic economic performances such as eliminating the import-export imbalance and creating new job opportunities. As a matter of fact, until the beginning of the 2000s, after independence, almost all of the state-owned enterprises from the former Yugoslavia were privatized for scrap prices and their closed factories were not opened, and production came to a halt and tens of thousands of people became unemployed. In addition to labor and investment cost reforms, long-term state policies and fifteen-year economic development models regardless of governments, in case of providing an environment of political, economic and financial trust for foreign investors, both in terms of location and customs union with the EU, to which North Macedonia is a party, and As a result of bilateral free trade agreements, it will be much easier to attract foreign investments to the country.

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