

THE ROLE OF THE FOREIGN CAPITAL IN THE INTEGRATION PROCESS OF REPUBLIC OF MACEDONIA

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Abstract

Foreign capital has significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it's used to increase accumulation and rate of investments to create conditions for more intensive economic growth. For the transition countries, it's useful to carry out the reforms and cross to open economy, to cross the past long term problems and to create conditions for stable and continuous growth of GDP, as well as integration in world economy.

In accordance with low level of accumulation and rate of development, Macedonia as a transition country has a very big need for foreign capital. When we talk about the foreign capital and its need and significance for the Macedonian economy, on the first place we have in mind the foreign direct investments, that result by the great number of externalizes produced by FDI for the national economy. But, also credit and loan as traditional form of transfer of capital in international economic relations, it will be useful for the growth only if it is at the reasonable level (in regard of the national external debt) from one side, and if its use in the development of a certain economy is efficient, from other side.

Keywords

- Development of the national economy;
- Foreign capital;
- Credits and loans;
- Foreign direct investments.

Rezumat

Capitalul străin are un rol semnificativ pentru orice economie națională, indiferent de nivelul ei de dezvoltare. Pentru țările dezvoltate el este necesar pentru a sprijini dezvoltarea durabilă. Pentru țările în curs de dezvoltare, el este necesar pentru a crește procesul de acumulare și rata de investiții, creând condiții pentru o dezvoltare mai intensă. Pentru țările aflate în tranziție el este folosit pentru realizarea reformelor, pentru a trece la o economie deschisă, pentru a depăși și a crea condiții pentru o creștere stabilă și continuă a PIB, cât și pentru integrarea în economia mondială.

Din cauza nivelului scăzut al acumulării și al ratei de dezvoltare, Macedonia ca țară aflată în tranziție are mai mare nevoie de capital străin. Când vorbim despre capital străin și despre nevoia și semnificația lui pentru economia macedoneană, pe primul loc punem investițiile străine directe în economia națională. Ne gândim de asemenea la credite și împrumuturi ca forme tradiționale de transfer de capital în relațiile economice internaționale. Acestea vor fi folosite pentru creștere doar dacă sunt obținute la un nivel rezonabil (în raport cu datoria externă) pe de o parte și dacă sunt folosite eficient în dezvoltarea economiei, pe de altă parte.

Cuvinte cheie

- Dezvoltarea economiei naționale;
- Capital străin;
- Credite și împrumuturi;
- Investiții străine directe.

1. Introduction

Achieving the higher level of development of the national economy is determined by the investments. According to this issue, for analyzing are relevant some aspects as: scope, structure of investments, sources for their financing, their efficiency and etc. The object of the research in this article is the foreign capital and its need and significance for the certain national economy, considering the case of Republic of Macedonia as transition country.

2. Foreign capital and economic development

Development of national economy is a function of few factors: natural resources, labor and capital. Compared with the first two factors, capital (investments) has a role of mover of the whole development of the national economy, because of its dynamic character, that means its ability to put in the function of development the two previous mention factors. In the function of development of the national economy, along the domestic capital, the foreign capital is relevant, also, especially in the country with less level of development-developing and countries in transition process in Central and Southeast Europe.

In the recent years, we have noted the significant growth of the foreign investments in the world. This is a result of the globalization of the national economies, liberalization, as well as openness to new types of investments. On behalf of this conclusion talk also the data in the Table 1 shown below, that ables to see flows of foreign capital for certain regions, as well as for certain countries for the period 1989-2000.

In the developing countries foreign capital is necessary for increase of accumulation and the rate of investments, exactly it contributes for more intensive economic development. For the transition economies, in which group is Republic of Macedonia, also, foreign capital appears as a condition for carry out reforms more successfully, transfer to open economy, cross over the hereditary problems from the past, creating preconditions for stable and continuous growth of GDP and possibilities and opportunities for integrating in the world economy, too.

There are few forms of the foreign capital, but credits and loans and direct investments are the most used forms of foreign capital. In this case it will pay attention to these forms of capital and their role for the Republic of Macedonia.

Table no. 1
(in billion \$)

Region/Country	Inflow of FDI						
	1989-						
	1994	1995	1996	1997	1998	1999	2000
Developed Countries	137.1	203.5	219.7	271.4	483.2	829.8	1005.2
Western Europe	79.8	117.2	114.9	137.5	273.4	485.3	633.2
EU	76.6	113.5	109.6	127.6	261.1	467.2	617.3
Other countries of the Western Europe	3.1	3.7	5.2	9.9	12.3	18.2	15.8
Japan	1.0	-	0.2	3.2	3.3	12.7	8.2
USA	42.5	58.8	84.5	103.4	174.4	225.0	281.1
Developing countries	59.6	113.3	152.5	187.4	188.4	222.0	240.2

Africa	4.0	4.7	5.6	7.2	7.7	9.0	8.2
Latin America and Karibu	17.5	32.3	51.3	71.2	83.2	110.3	86.2
Asia and Pacific	37.9	75.9	94.5	107.3	95.9	100.0	143.8
Asia	37.7	75.3	94.4	107.2	95.6	99.7	143.5
Western Asia	2.2	-	2.9	5.5	6.6	0.9	3.4
Central Asia	0.4	1.7	2.1	3.2	3.0	2.6	2.7
South, East and Southeast Asia	35.1	73.6	89.4	98.5	86.0	96.2	137.3
South Asia	0.8	2.9	3.7	4.9	3.5	3.1	3.0
Pacific	0.2	0.6	0.2	0.1	0.3	0.3	0.3
Developing countries in Europe	0.2	0.5	1.1	1.7	1.6	2.7	2.0
Central and East Europe	3.4	14.3	12.7	19.2	21.0	23.2	25.4
World	200.1	331.1	384.9	477.9	692.5	1075.0	1270.8

(in billion \$)

Region/Country	Outflow of FDI						
	1989-1994	1995	1996	1997	1998	1999	2000
Developed Countries	203.2	305.8	332.9	369.9	672.0	945.7	1046.3
Western Europe	114.2	173.6	204.3	242.4	475.2	761.1	820.3
EU	105.2	159.0	183.2	220.4	454.3	720.1	772.9
Other countries of the Western Europe	9.0	14.6	21.1	22.0	21.0	41.1	47.4
Japan	29.6	22.5	23.4	26.1	24.2	22.7	32.9
USA	49.0	92.1	84.4	95.8	131.0	142.6	139.3
Developing countries	24.9	49.0	57.6	65.7	37.7	58.0	99.5
Africa	0.9	0.5	0.0	1.7	0.9	0.6	0.7
Latin America and Karibu	3.7	7.3	5.5	14.4	8.0	21.8	13.4
Asia and Pacific	20.3	41.1	51.9	49.4	28.7	35.5	85.3
Asia	20.3	41.1	51.9	49.4	28.6	35.4	85.2
Western Asia	0.3	-1.0	2.3	-0.3	-1.7	0.7	1.3
Central Asia	-	0.3	0.0	0.2	0.3	0.3	0.3
South, East and Southeast Asia	20.0	41.8	49.7	49.5	30.0	34.4	83.6
South Asia	-	0.1	0.3	0.1	0.1	0.1	0.3
Pacific	-	-	-	-	0.1	0.1	0.0
Developing countries in Europe	-	-	0.1	0.2	0.1	0.1	0.1
Central and East Europe	0.1	0.5	1.0	3.4	2.1	2.1	4.0
World	228.3	355.3	391.6	466.0	711.9	1005.8	1149.9

Source : UNCTAD, World investment Report, 2001

3. Foreign credits and loans and Macedonian economy

National economies that are faced with the problem of low level of accumulation of the economy, one way to come to the additional capital is using the debt from the domestic and international financial institutions, too.

Republic of Macedonia is in group of country with low rate of accumulation ability of the economy that concludes by the data from the Table 2. From these data we should see that the rate of the investments from the middle of the past decade until 2002 is in rang from 14-17 % from the GDP (the highest rate of investments of 17,5 % was released in 1998 year.)

Table no. 2

GDP at current prices, cross fixed capital formation, cross capital fixed formation in mach. and equip. and rate of investmenst for period 1995-2002

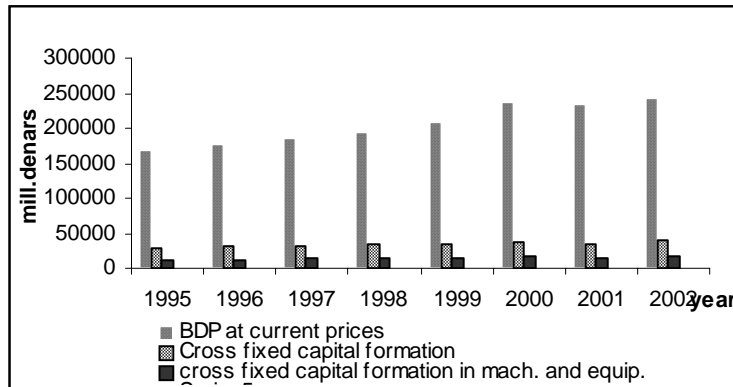
(in million denars)

	GDP at current prices	Gross fixed capital formation	Gross fixed capital formation in machinery and equipment	Rate of investments
1995	169521	28027	10540	16,5
1996	176444	30654	12054	17.3
1997	186019	32232	13086	17.3
1998	194979	33982	14553	17.5
1999	209010	34710	15000	16.6
2000	236389	38332	18122	16.2
2001	233841	34716	15390	14.8
2002	243970	40448	17917	16.6

Source: Documentation of the State Bureau for statistic of Republic of Macedonia

Figure no. 1

GDP, cross fixed capital formation and cross capital fixed formation in mach. and equip. for period 1995-2002 year



From the other side, when it will be taken in consideration the rate of amortization for this period and its movement from 14% to 15 % it should be conclude that Macedonian economy wasn't in situation to realize varicose reproduction. Especially, some activities in certain years were in the zone of disinvestments. Such was the case with the industry, manufacturing and agriculture for the year 2000, when the participation of the rate of amortization in the value added was 18,4%; 12,6% and 9,4%, while the rate of the investments was on the level of 16,6%; 12,5% and 7,6%, respectively.

According to such situation in the economy, enterprises were enforced to financing their activity with debt. But, in the same time they are faced with the problem – insufficient and unattractive credits from the domestic commercial banks. That situation resulted from:

- the lost trust to commercial banks, resulting from the great numbers of saving houses bankrupted in the last decade;

- the high rate of interest that came out from the riskness of the commercial credits etc.

Have in the mind the limited internal possibilities for investing, Macedonian economy is enforced to satisfy the lack of capital from the import of the foreign capital. From some estimating, the portion of the foreign capital in the total financial sources for investments is around 40%. This figure talks for the relativity high share of the foreign capital, but the low level of the domestic accumulation cause the total investments in the national economy to be on relatively low level, see from the Table no. 3.

Table no. 3

FDI and credits and loans used for period 1995-2001 year

(in mill. \$)

	Credits and loans	FDI
1995	131.7	9.5
1996	126.6	11.2
1997	180.6	15.7
1998	263.6	117.7
1999	189.4	32.1
2000	145.7	175.4
2001	119.2	443.2

Source: Data from Central Bank of Republic of Macedonia

From the other side, the role of the foreign capital for certain economy is determined from its structure (relation between debt and direct investments). Macedonian economy needs for the financial assets have satisfied in great part by foreign credits and loans. According to the shown data in the Table no. 3, we should see that middle and long term

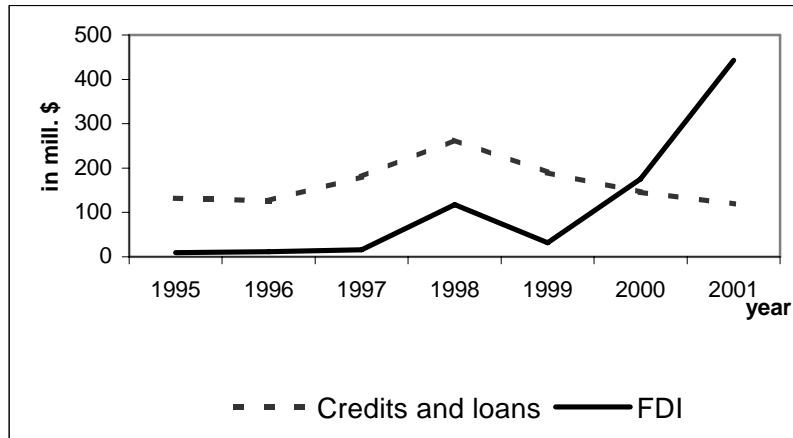
credits and loans from foreign creditors (means official and private creditors) risen to 1998, and after that there was a trend of decrease, because of the some problems in the national economy and the political-security situation in the country and region, widely. But from the aspect of the efficiency of the credits and loans, the general conclusion is that they weren't

used propulsive enough, that resulting from the fact that in the first place such capital was used to pay the previous liabilities of using the credits and loans from the past (for the needs of the balance of payment), for infrastructure, to cover

the current expenses of the enterprises (amortization, wages, etc.), but lower part to support the production or financing the investments in industry, especially for the export (take in consideration the very huge deficit in the balance of payments).

Figure no. 2

FDI and credits and loans used for period 1995-2001 year



The Republic of Macedonia belongs to countries with the relatively low level of external debt that means there is possible capacity for making new arrangements for credits and loans. But it will be justified, only in the case if the money is used efficiently (it means to put in the function of the development of the export sector in economy that contributes to higher rate of development of the national economy and in the same time decies the deficit in the trade balance and current account.

4. The foreign direct investments- state and prospective

From the aspect of the foreign capital, every country gives advantage to the foreign direct investments than debt. That resulting from the double economic use that comes out from FDI. From one

side, FDI is the additional source of capital, but in the same time it doesn't increase the external debt, that is case when it uses foreign credits and loans. Second advantage of FDI comes from their possibility for producing additional effects (externalizes) as:

- Increase the competition and competitiveness of the domestic market, that decrease the profit of the enterprises with the monopolistic position on the market and stimulate domestic enterprises to better quality of the goods and services, etc.;
- Access to new technologies;
- Access to better management techniques;
- Better allocation of the resources and exploitation of the production capacity;
- Revitalization of the current capacities;

- Growth of the production;
- Creating new jobs;
- Stimulate export-oriented capacities, etc.

Data from the Table 3 show that there is permanently growth of the FDI, except in 1999. The most significant inflow of FDI was in 2001 as a result of the selling of Macedonian telecommunication. Although FDI have growth in Macedonia, its scope is significant behind the other countries in the region, because of many reasons:

- The scope of the country;
- Limited natural resources;
- Low national product;
- Political unstable;
- Inefficient legal system;
- Inefficient banking etc.

Compare with the credits and loans, it could be noted that until 2000, the part of the credits and loans was greater than FDI. From the aspect by the purpose of the FDI the conclusion is the same. The great part of this money was used for financing investments in infrastructure activities (electricity, construction and transport). But the part for the support, revitalization and reconstruction of the production, for increase the technical-technological level of the production structure etc., was lower. Such situation (structure) is relevant for the total investments in the economy.

For the notice it is also the fact, that the inflow of the FDI capital in the Macedonian economy in the past period came as a result of privatization process of the government and social capital through Macedonian stock exchange, but in very low scope as a greenfield investments. As a result of such situation it was necessary to undertake relevant measures to dynamic the efforts for attract FDI and to remove the obstacles for enter foreign capital.

As a result of these efforts and in the same time the aspiration for integration in EU, Macedonian government has brought national program

for stimulating investments in Republic of Macedonia in 2003, contented measures and tasks for the greater attracting investments from domestic and foreign sources, too. In the same direction it was the national strategy for integration of Republic of Macedonia in EU that was adopted in 2004. This strategy and program have to strengthen external opportunities and internal strengths of Macedonian economy, from one side and to remove (decrease) external treatness and internal weaknesses, from other side. It is more stress if we have in mind that FDI on the supranational level decrease, contrary from this general trend was noticed growth from 24 billion \$ in 2001 to 29 billion \$ in 2002 in Central and Southeast Europe. Parallel with the economic measure for the greater share of FDI it's necessary to increase the efficiency of the legal system that means to bring all needed laws and their more efficient implementation in the practice.

5. Conclusions

Capital or investments are the factors of the national development. The basic source of the investments presents domestic savings. But, in the condition of the lack of it, the economy is enforced to use additional sources of financing.

Macedonia like a country with the low rate of domestic savings is faced with the need of import of foreign accumulation through debt and flow of FDI. In order not to increase external debt, from one side and to produce positive externalizes on other side, every economy gives advantage to FDI in relate to foreign credits. In the previous period until 2000, the share of the foreign credits and loans was greater than FDI. FDI have noticed permanent increase, but their level is not on the satisfactory level for the needs of the Macedonian economy. In accordance,

it will be necessary to make bigger efforts to make conditions for more attractiveness of economy for SDI as: greater stimulation of the domestic savings and flow of foreign capital (giving advantage to FDI) and to use contemporary financial

instruments, over the cross non satisfactory structure of investment by purpose of investments and technical composition.

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