CENTER FOR ECONOMIC ANALYSES (CEA)
Skopje, Macedonia

Policy Framework

Benefits and Costs from Foreign Direct Investments in the Technological Industrial Development Zones

Case: Macedonia in the Period 2007-2014

Center for Economic Analyses– CEA

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1. Vision

Promotion of the foreign direct investment policies (FDI) in the technological-industrial development zones (TIDZ) in order for a higher sustainability of the investments on a long-term plan, bigger economic benefits and increased competition and compatibility with the domestic investment promotion policies.

Goals and results:

- Significant increase of the Value Added from FDI in TIDZ for acceleration of the economic growth, development of new technologies and their application in the national economy, expansion of competitiveness and employment
- Promotion of the policies for attracting FDI which focus on reforms in the direction of increasing the domestic Value Added through structural reforms for facilitating the education and skills, as well as the provision of a better infrastructure.
- Harmonization and compatibility with industrial and green zones in order to provide business connections and integration of the entities from TIDZ with the domestic economy.
- Transparency of and accountability for the effects from the State Aid for attracting and retaining the FDI in accordance with the European Regulation and the recommendations of the National Supervision bodies.

2. Analysis:

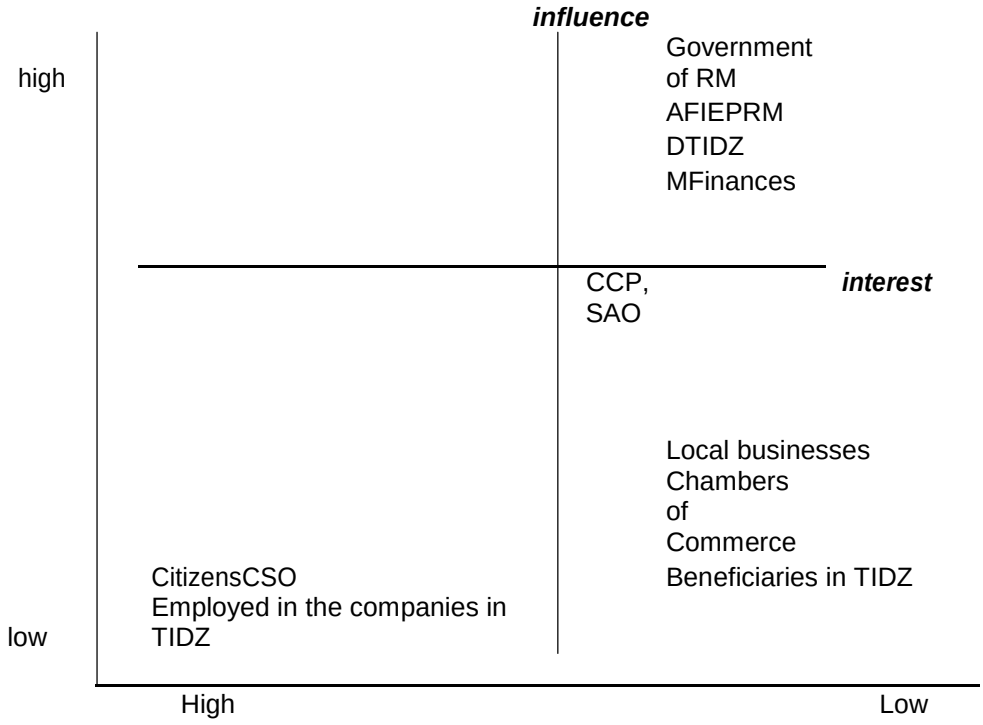
1. Non transparency and lack of data and information on the amount of the costs for subsidizing FDI, and a non-harmonization with the European Regulation on State Aid Transparency;
2. Untimely informing of the investors, lack of criteria for selection and conclusion of agreement with FDI, incomplete planning of the means in the budget of the Republic of Macedonia but also, lack of monitoring and evaluation of the achieved effects;
3. Gross Value Added of the companies in TIDZ is with delayed temporal effects, so far, three out of seven companies have a positive effect;
4. The State Aid provided to the beneficiaries in TIDZ has a significant financial influence on the decision to invest in Macedonia, and the long-term sustainability of the investments even after the expiry of the tax exemptions period is debatable. The leaving after the expiry of the period of receiving incentives after the tenth year would result with capital drain, laying off employees, and a need to seek other investors in TIDZ.
5. The companies beneficiaries in TIDZ, for financing the means with a significantly bigger share are being financed through liabilities with connected parties (mother companies), and on a smaller scale, through increasing of the capital, with which the companies in TIDZ pay interest costs, reflected in decreased profit,

decreased allocation of the profit and potentially, lower calculated income tax for an allocated profit.

6. The average net wages of the employees in the companies are approximately on the same level as the national ones, but this is not the case with most of the companies, so, the continuous promotion of a cheap workforce, at the same time, promotion of attracting developed technologies policy, is not reflected in the price of the workforce, which questions the effect of transfer and spillover of knowledge in other companies in the sector.
7. The potential benefit for positive externals, such as the spillover of knowledge, is expected but if faces a challenge, considering that the sectors that are generators of new knowledge, as well as transfer or spillover of knowledge: research and development, marketing, sales, are accumulated in the mother companies or in the regional centers, which limits the factor spillover of knowledge as an argument for attracting FDI in the Republic of Macedonia.

Therefore, it is necessary the policies for attracting FDI to focus on a valid strategy, measuring the performances with indicators which mirror the goals of the policies.

Mapping of the key concerned parties



The policy progress will be first measured through identification, measuring and evaluating of the performance indicators as a result of the allocated aid to FDI.

3. PESTLE Analysis

Political influence – the national and regional political stability has a key influence on the attracting, but also on the sustainability of the investments especially when the policies of the countries in the region provide “similar” measures and policies directed toward attracting FDI; Changes in the fiscal policy, as well as in the tax policy, will have an impact on the attracting and retaining of investments in the country.

Economic influence – the global economic growth and development has an influence on the promotion of the FDI effects because the main markets for the products of the beneficiaries of TIDZ are the world markets, at the same time, also for the supply of inputs; the high unemployment rate in this country as opposed to the need of qualified workforce for specific production processes can cause the beneficiaries to face increased costs for workforce;

Social influence – FDI have an influence on the increase in the employment; its bigger impact is expected in the following period;

Technological influence– the “new” sectors and activities with the coming of FDI enable a potential transfer of new technologies through the new investments of other investors but also among the local businesses/providers;

Legal influence – harmonization with the legal regulation for State Aid Transparency with the European Regulation;

Influence on the environment– TIDZ are located outside the residential area, which has a beneficial influence on the citizens; the attracting of investors is/should be focused on the non-polluting and high-technologically developed processes which are light polluters or aren’t polluters at all; Additional changes in the regulation which refers to and is connected to the protection of the environment and the improvement of the standards, will have an influence on the beneficiaries in TIDZ.

4. Looking forward

Scenarios and Risks

Desired scenario:

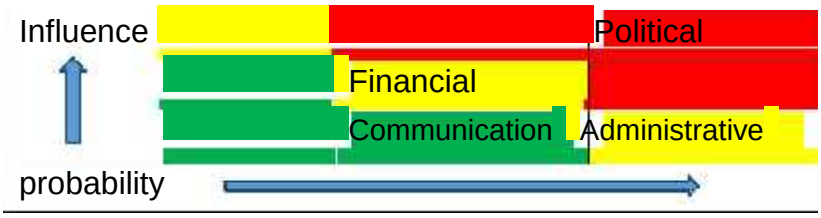
- Defined indicators for selection and evaluation for measuring the FDI performances, both from economic and financial aspect
- A transparent preview of the allocated aid in FDI pursuant to the EU Regulation and implementation of the recommendation of the inspection bodies
- Ex ante and ex post analysis of the FDI performances regarding the allocated aid

Promoted policies and measures for integrating of the functioning of the green industrial zones in accordance with TIDZ in order for a more effective functioning of the domestic and foreign investment support policies

Structural changes in the mode of attracting FDI in order for an investment sustainability to be established

For realization of the desired scenario, these are the following Risks

Risks:



Political risk – Degree: high. Change of the state policy for support and sustainability of FDI in TIDZ, as well as the political stability, is one of the key factors for the attracting and sustainability of the foreign investments in the country; the regional political factors have an influence on the effects of the domestic policies.

Financial risk – Degree: medium. Risk of non-sustainability of the financial support to FDI through State Aid and subsidizing, and the effects on the public expenditures

Communication risk - Degree: low. Risk from non-establishment of an effective communication between the policy makers, those who implement those policies and the administration, as well as the beneficiaries in TIDZ.

Administrative risk – Degree: medium. Risk of administrative capacity for monitoring and evaluation of the effects from the support of the beneficiaries in TIDZ.

5. Influencing

The option for achieving the desired outcome/result described as desired scenario, its effectiveness, consistency, cost and realization, is also connected to risks in an environment with external influences.

In order to achieve an influence on the key decision makers, it is necessary to use representation and lobbying tools starting from: presentation of findings and recommendations, provision of a preview of resources which are needed for the change, direct communication with the decision makers and the policy creators. The inclusion of the decision makers and the policy creators is crucial in the FDI support and attracting policy assessment process. The beneficiaries in TIDZ will contribute additionally through engaging in activities which will provide bigger transparency and

communication with the public and local businesses, with the purpose of providing bigger transfer of knowledge in the form of successful examples. The rest of the participants who are “responsible” for managing the state aid allocation, as well as for the monitoring of the results, need to establish clear and defined indicators for selection and evaluation for the measurement of FDI performances both from economic and financial aspect, and to discuss them transparently.

6. Making a change: how to assure ourselves that the proposed policies work?

The ways in which we can influence the factors which the policy depends on is through an exchange of information on the policies and foreign investment strategy, measuring of the performances and the level of realization of the desired goals, through preparation of policy briefings, meetings with the policy creators and establishing a two-way communication. The initiating of a debate on the question of FDI effects is one of the first steps needed to monitor the policies.

7. Assessment and learning: How does the success look like? How can we use the lessons we have learned?

Positive long-term strategies which provide sustainable investments, which are harmonized with the domestic investment support policies and provide bigger economic benefits, as well as compatibility with the policies for promotion of the domestic investments where the progress will be measured through understandable and measurable performance indicators as a result of the allocated aid to FDI, are needed. Therefore, the implementation of the recommendations from the research, its elaboration, the implementation of the recommendations from SAO, harmonization with the support of the domestic investors, should be monitored in order to determine the success of the given foreign investment support policy, with changes directed towards the retaining of investors even after the ten-year period of receiving significant incentives. The findings from the analysis indicated the need of:

- A promoted transparency of the allocated aid to FDI
- The implementation of the recommendations from the supervision bodies
- Ex Ante and Ex Post analysis of FDI performances
- Integration of the functioning of the green industrial zones
- Structural changes in the mode of attracting FDI with a focus on providing services to the beneficiaries