



REVIEW ARTICLE

CHOOSING THE EASIEST WAY: ATTRACTING FDI OR BRANDING MACEDONIAN BUSINESS?!

^{*},¹Tatjana Boshkov and ²Dimitar Kovacevski

¹Assistant Professor, Faculty of Tourism and Business logistics, University "Goce Delcev", Stip, Macedonia

²Assistant Professor, School of Business Economics and Management, University American College, Skopje

ARTICLE INFO

Article History:

Received 17th July, 2017

Received in revised form

30th August, 2017

Accepted 12th September, 2017

Published online 31st October, 2017

Key words:

FDI, Company, Profits,
Business, Opportunity.

ABSTRACT

FDI represents a potential means of growing and diversifying the SME base and achieving greater integration within global networks. Without a market - there is no trade, and without trade - there is no profit, economic growth and development. Therefore, all economies, especially small ones, are "searching for" and fighting the restless spirit of competition and "hoping" to be a "link" in this international trading concept and supply chains. This paper aims to focus on contribution for developing the strategies that could help to strengthen the SME sector. From one side it could be done through their promoting of integration into, and potential benefits from external markets. Implementation of the strategies should increase the attractiveness of the transition and developing countries for foreign investors which will improve the capacity of the SME sector. From the other side, the policies will strengthen the benefits from FDI to local economies through facilitation of SME trade and capacity building of local SMEs to use the opportunities from the external markets.

Copyright©2017, Tatjana Boshkov and Dimitar Kovacevski. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Tatjana Boshkov and Dimitar Kovacevski, 2017. "Choosing the easiest way: Attracting FDI or branding Macedonian business?!", *International Journal of Current Research*, 9, (10), 60085-60088.

INTRODUCTION

Strengthening the competitiveness of enterprises implies the company itself to possess features such as, to use resources efficiently and effectively, to be prepared and capable of growing capacity, to be ready to invest, and to show willingness to accept innovation and more advanced technology, looking aggregately - to contribute to the improvement of our economy. In literature is known that for developing and transition economies, FDI represents a potential means of growing and diversifying the SME base and achieving greater integration within global networks. In this way, if we thinking how to promote the connection between FDI and SME, the answer is creating effective policies which are based on seeking large number of locations in the world with similar characteristics, which clearly affect the bargaining position of individual governments with potential investors and represent key factors that policy makers need to consider for attracting and exploit the potential benefits of FDI. In the absence of other locational advantages, competition between places typically focuses on offering lower costs. Regarding nominal convergence, Macedonia is facing with challenges that are common for the most economies in the region and beyond. Thus, uncertainty regarding the movements of prices and expectations of pressure caused by the process of real convergence, are the main challenges for monetary policy in

the medium term. Further, Macedonia is facing with significant transition challenges and only through effective decision of these challenges the country will be able successfully to compete on the EU market. To formulate effective policy, it is necessary researching of the growth of total factor productivity in Macedonia as well as the reasons for low business investment. Macedonia's membership in the EU can improve the industrial situation only if access to a large extent makes Macedonia location from which foreign investors can serve to the EU market. This means that the domestic industry, with FDI must make the necessary changes to its output. These long-term structural shifts in employment and output, can be accelerated through the accession of Macedonia to the EU, i.e. sectoral change can be an important driver of change in aggregate factor productivity and income of workers in different sectors of the economy. In the context of Macedonia and the challenge of the European Single Market, we could help much more if we ask the issue of improvement first of all to regional trade integration. Namely, is its improvement possible for the economies of the Western Balkans, including Macedonia, for the challenge called the European Single Market?

Regional trade integration in the Western Balkans and trade cooperation with European countries is an important prerequisite for increasing regional trade flows and economic development in the region. The fact is that in the last few years significant measures have been implemented in the direction of market liberalization. But it is noted that asymmetric

*Corresponding author: Tatjana Boshkov

Assistant Professor, Faculty of Tourism and Business logistics, University "Goce Delcev", Stip, Macedonia.

liberalization has not yet contributed to improving the position of the Western Balkans, emphasizing Macedonia on the European market. This is precisely what can give the right to consider CEFTA as a pre-accession financial instrument in the light of future integration with the European Union.

Literature review

Foreign direct investment is an integral part of an open, international economic system and a major potential catalyst for development. The potential benefits of FDI for host economies include (Lall, 2001):

- Increasing the supply of capital;
- Technology and knowledge transfer;
- The generation of employment and human capital;
- The effect on enterprise development, through linkages and spillover effects.

An additional source of capital is clearly important in countries where financial constraints act as a major barrier to development. The extent to which potential positive externalities from FDI are achieved in practice is likely to be affected by a variety of factors at the macro- and micro- levels. There is example where FDI has also made a significant contribution to the development of the "high tech" cluster, through linkages between technology partners (Khalid, 1995). In this case, the role of policy was to enhance the development of an initial clustering of research centres by contributing to the attraction of the city as a destination for inward investment. This was achieved through a combination of establishing a consistent policy framework, offering a degree of predictability for foreign investors and an active promotion programme to attract FDI (OECD, 2002). In transition and developing countries the development of FDI-SME connection would be assisted if the provision of support for the internationalisation of domestic firms in developed countries included co-operation with business support agencies in transition and developing countries. This could help to facilitate partner searching and assisting firms to prepare to co-operate with local suppliers, including raising awareness and understanding of the local business culture; planning for co-operation; and training management and key staff (Boshkov and Kokaroski, 2014).

FDI on the Agenda of Macedonian policymakers

Foreign Direct Investments are an integral part of the open, international economic system and are a major potential catalyst for development, which is a reason to be challenged on the agenda of politicians and as a theme for analysis and suggestions of the academic environment. As far as Macedonia and FDI are concerned, the review shows that they are reduced to -17.63 million euros in September 2015. In the period from 2003 to 2015, FDI an average of 36.87 million euros, reaching the highest level for the entire period of 506 million euros in November 2007 and the lowest record -48.03 million euros in July 2010.

Apart from the fact that the reports show that our export driver is FDI (Bunardzik), as benefits from FDI for Macedonia, we can mention:

- increasing the supply of capital;
- transfer of technologies and knowledge;
- generating employment and human capital;

- the development of enterprises, through network links and "spillover" effects.

An additional source of capital is particularly important for countries where financial constraints are a major obstacle to their development. The extents to which potential positive externalities of the FDI are exercised in practice are likely to be influenced by various factors at the macro and micro level.

In this context, it is already known that in Ireland, Irish firms are focused on international supply opportunities realized through the formation of a new agency called the Enterprise Ireland. This agency works with the indigenous industry to improve sales, exports and profitability through a range of support programs with a worldwide network of resource provision offices that serve to identify international supply capabilities. This agency is deemed particularly deserving of the appearance of Irish MNC in achieving its foreign goals.

Key policy issues are related to creating conditions for attracting foreign investment, along with policies to encourage and facilitate various forms of cooperation between investors and domestic enterprises. In this way, the role of the policy to attract FDI involves the inclusion of:

- promotional activities;
- creating an appropriate and effective legal and regulatory framework;
- capacity building programs for potential suppliers involving training and quality assurance;
- various business support services and involved intermediaries.

Strengthening the competitiveness of enterprises implies the company itself to possess features such as, to use resources efficiently and effectively, to be prepared and capable of growing capacity, to be ready to invest, and to show willingness to accept innovation and more advanced technology, looking aggregately - to contribute to the improvement of our economy. Another important strategy for promoting and strengthening the link between FDI and enterprises is the availability and facilitation of access to credit, to improve trade and investment capacity of enterprises. The access to finance for the purpose of development can be increased by ensuring that contracts are easily applicable; collateral and security issues are competitively solved; the legal framework provides sufficient number and type of financial instruments to be used, etc. In transition countries, the link between companies and FDI will be helped if the provision of support for the internationalization of domestic firms in developed countries is realized through cooperation with business support agencies in a transition country. This could help facilitate the search for a partner and, at the same time, companies to prepare themselves for cooperation with local suppliers, including raising awareness and understanding of local business culture, a plan for collaboration as well as training, employee choice, and so on. Since FDI's derive from developed countries, they can see it as a challenge, except for profit, that is, policy makers should be a benchmark for the importance of social responsibility, developing the more current supply chain management, technical support projects, or infrastructure for companies in developing countries. Another important strategy to promote and strengthen the connection between FDI and SME is facilitation availability and access to loan and equity finance, particularly medium to long-term opportunities to improve trade and investment capacity of SMEs. Access to finance for development purpose

may be enhanced by ensuring that contracts are easily enforceable; issues of collateral and security are managed competitively; financial institutions are managed prudently and are trusted by depositors; legal frameworks enable a sufficient number and type of financial instruments to be used; financial institutions other than banks are functioning; SMEs are encouraged to keep good accounting records.

Branding Macedonian Business on EU market

We always see Macedonia as country which is on the crossroad of major routes in Southeast Europe, meaning that the country provides a link between four main regions in Europe: Central Europe, Aegean Sea, Black Sea and the Adriatic Sea. We use this as translation for interesting country for investments. But about our positioning and branding on the EU market? How to move from contacts to contracts? One is sure, new markets – new opportunities. In general, linking Macedonian business with the EU is a process that will undoubtedly accelerate Macedonian business success and market operations. Regional and local businesses are entitled to require co-financing of their business in the direction of improvement of quality and meeting standards of the business. Exporting the business in the European Union requires a lot of knowledge of both local and international EU regulations, standards, export strategies, international partnerships with EU companies, Legal consulting – EU legislation, Marketing strategies. Maybe for the most Macedonian companies will be easy to think (and act) for Croatia as a link to get know better the EU market competition and consumers desires. Another important moment in branding on international markets is emotion of the customers. Emotions are what drive decisions. Emotions make consumer decisions easier and create an added value for the enterprise or the product. In a consumer society like ours, it becomes more difficult for companies to distinguish their product from the competition. A good cost-performance ratio is often not sufficient enough. Companies must differentiate their products of functionally equivalent competition products by emotions, because emotions make products become brands. Brands create emotions, provide values, they activate, connect, strengthen the loyalty of the customer and are seldom substituted with other brands.

In order to activate emotions and communicate suitable values as well as to set up a long-term strategy, it is necessary to be totally aware of the needs of the target group. Macedonia disposes of a huge number of recognizable and strong brands, which develop steadily to a good competition of international brands. Despite, there is a lack of inquiries and assistances regarding the establishment and long-lasting supervision of brands. So existing agency which offer brand rankings, based on a quantifiable emotional value is very important. In order to get more competitive - also compared to international brands - companies need to have the possibility to measure their additional value, in relation to the existing competition, and to steer it strategically. Furthermore, Macedonian brands will be compared with international brands and classified in the respective categories, concerning brand loyalty, brand consciousness, perceived quality and brand associations. In this regard, marketing strategies and activities that could be undertaken are: 1) *Constant innovation*, 2) *National and international trademarks protection*, 3) *Product differentiation through branding and designs*, 4) *New international markets' penetration* 5) *Constant marketing campaign*, 6) *Differentiation of products - technical, informative or distribution*

differentiation of products; 7) *Change in prices - price increases according to consumer opinion for appropriate price and adjustment to competitors prices, for gaining a temporary advantage*; 8) *Creative use of distribution channels - using vertical integration forward or backwards, or use channels that are new and unconventional for the industry*; 9) *Creating an effective and efficient communication with customers that will build an unbreakable connection with the community, affiliation and love for the brand product and the company.*

Also, very important thing is an internet based marketing and sales strategy to penetrate the EU market which is a necessary but not a sufficient strategy to develop EU sales. It cannot deliver sales of any significance. An effective strategy involves a comprehensive, consistent and adequately funded approach embracing a full range of marketing and public relations tactics.

Conclusion: Making contacts to contracts

Macedonian business are too looking forward to increasing exports in the region, as well as, becoming more competitive on the domestic market. Interestingly enough, some Macedonian companies even see Croatia's EU accession as an opportunity to introduce their products to the wider European market. Yet others warn that Macedonian exports to Croatia will now face a steeper competition from all European products, some of which might very well be offered at prices cheaper than the ones of the Macedonian exports. On a different note, all countries in the region are hoping to attract Croatian investments; namely, with the higher tariffs and quotas, it might be a wise move for Croatian business to move part of their production facilities to the CEFTA countries. Thus, their products would not be facing the CEFTA import regulations. Additionally, this would allow them to evade the higher production costs that come with Croatia's EU membership. Some Croatian factories have already acted to move part of their production facilities to the CEFTA countries, mainly to Bosnia and Herzegovina. Thus, Podravka (a food company) already has part of its production facilities in Macedonia, and Vindija (dairy products company) is investing in increasing its production facilities in Serbia. Krash (a confectionary factory) and Franck (a coffee and snacks factory) have both relocated some of their production facilities to Bosnia and Herzegovina, and TDR (cigarette manufacturer) is doing the same. Cigarettes, in particular, will face much higher import tariffs in CEFTA. Yet many Croatian companies report that they don't let prices in the CEFTA market rise due to the new tariffs and quotas; instead, they would accommodate the costs. Some, like Atlantic Group, already have production facilities both in the CEFTA region and in some EU countries. Hence, some leading analysts in the region even go as far and stand that there is no major changes in the CEFTA market after Croatia became EU member. Thus, what remains is to observe the trends and changes in trade in the CEFTA and EU markets and to let statistics shed light on the future market developments.

REFERENCES

Bishev, Gligor and Boskov, Tatjana, 2015. Exchange rate and export-led growth in SEE6: Economic convergence machine – What happened? What next? In: Održivi ekonomski razvoj - savremeni i multidisciplinarni pristupi - ERAZ, 11-12 June 2015, Belgrad, Srbija.

- Boskov, Tatjana and Bishev, Gligor, 2014. How to accelerate export-led growth in contemporary world? In: SMEs Development and Innovation: Building competitive future of South-Eastern Europe, VIII International Conference, 03-04 Oct 2014, Ohrid, Macedonia.
- Boskov, Tatjana and Kokaroski, Dimko, 2014. SME development and FDI: opportunity or necessity. In: SMEs Development and Innovation: Building competitive future of South-Eastern Europe, VIII International Conference, 03-04 Oct 2014, Ohrid, Macedonia.
- Business Info Group: Foreign Direct Investment in Serbia 2001-2011, Belgrade, 2012, p. 19.
- Helpman, E., Melitz, M.J., and Yeaple, S.R. 2003. "Export versus FDI", NBER Working Paper 9439, Cambridge, MA: National Bureau of Economic Research, Cambridge.
- Lall, S. 2001. "Competitiveness Indices and Developing Countries: An Evaluation of the Global Competitiveness Report", *World Development*, Vol. 29, No. 9, p. 1501-1525.
- Mencinger, J. 2003. "Does Foreign Direct Investment Always Enhance Economic Growth?", *Kyklos*, 56(4): 491-508
- OECD 2002. Small and Medium Enterprise Outlook, Paris.
- Serbian Development Agency: Why Invest in Serbia, 2016. Available at: <http://ras.gov.rs/uploads/2016/02/why-invest-site-2016-2.pdf>.
- Tas, Nilgün 2002. "International Experience in SME Promotion", paper presented at the *Public-Private Consultation Workshop on SME Development*, UNIDO-Center for Industrial Research and Development, Vientiane, 25 April.
