

MULTI-NATIONAL COMPANIES AND TRANSITION COUNTRIES: A MACEDONIAN EXPERIENCE

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Abstract

The process of globalization and liberalization is further accelerated by the growing expansion of multinational companies in post-communist transition countries. Transition countries improve their technological development, increase the exports and gain better access to global markets. On other hand, global companies maximize their profits by employing cheaper resources, paying lower taxes and using a number of benefits that the transition countries offer to them. The main purpose of the paper is to make an analysis of these global economic movements including Macedonian case.

Key words: *Globalization, multi-national companies, transition countries, Macedonia*

1. INTRODUCTION

Globalization is a process that dictates the movement of the world economy in recent decades. Highlights of the process of globalization are the liberalization of international trade and international capital movement. The main leader of these movements are multinationals that spurred by the desire to increase profits, have been expanding their operations throughout the world, especially countries in transition. The advantages of capital investment of multinational companies in the countries in transition are mutual. On the one hand, these countries improve the technical equipment of industry and use modern technologies that lead to increased exports and their companies are approaching the global market, thus increasing the utilization of the available resources. Transition countries offer preferential treatment to these companies by paying low taxes or completely release them from tax duty by guarantee the right of ownership and free capital movement. On the other hand, multinational companies fulfill their main goal- to increase profits through the use of cheap labor, lower costs for energy, raw materials, transportation, utilities, etc. and other benefits to transition countries. In the following sections of the paper will be given an overview of the process of globalization, multinational companies, transition countries and foreign direct investments. Finally, will be given a short analysis of the Macedonian experience.

2. GLOBALIZATION AND MULTI-NATIONAL COMPANIES

One of the basic characteristics of the contemporary world economy is the globalization process that is accelerated by the process of liberalization of the international economy and international movement of capital. The most unique form that is very obvious in connection with the economic globalization is its complexity. That process, simultaenously, is depicted as convergent and divergent force leading to unification of the world economy and as a process that produces bigger gap between the developed and undeveloped world.

Globalization has a few dimensions. Even the economic globalization is a reason for the whole process of globalization it's not the single reason. The process of globalization is a result of many other aspects or forces that cannot be separated each other, as the society, politics, environment and culture. Besides, the economic dimension is on first hand (trade growth, direct investments, the globalization of financial market, multinational integral production, multinational companies etc. (Muller n.d.).

The process of globalization has many goals, such as: economic integration, raising the level of education, strengthening the loyal competition, environmental protection, inter-ethnic and inter-religious tolerance and strengthening of the social security of the citizens, which by the modern political pragmatism are one of the basic concepts for the future development of market economy and

knowledge by adopting new and inovating the present technical-technological knowledges and skills. Looking from economic aspect, the process of globalization resulted in increase of trade and investments, strengthening of the global and unique market, multinational production increase within national economies and increase in the total economic and trade activities.

The dominant form of economic relations in connection to the globalization of the world economy is the international movement of capital. International capital has reached proportions that have marked the development not only of individual regions and countries, but the reproduction of the world economy. The use of foreign capital is of particular importance for the development of national economies. Transition countries using foreign capital accumulation can increase the rate of investment that creates conditions for intensive economic growth. For these countries, foreign capital is necessary for the successful implementation of reforms and transition to an open economy, overcoming the legacy long-term problems, to create conditions for stable and continuous growth of gross domestic product, as well as integration into the world economy (Community of sustainable development 2003).

By using foreign capital improves the technical equipment of industry and use modern technologies that lead to increased exports, approaching companies to the global market, thus increasing the utilization of the available resources. The use of foreign capital not only provides the means to finance new factories and equipment, but provides transfer of new technology, new organizational structures, knowledge and experience.

In the center of the main forces that accelerate the internationalization of economic life are multinational companies. They form a new economic map of the world in which national economies are becoming integral parts, and in which diversity of national economies is less determined by the internal factors and more by external factors. Production on global scale is made on the basis of cooperation and specialization imposed by multinational companies. Because of its nature, multinational companies, naturally, are opposed to any kind of administrative restrictions that interfere with the performance of the activity and advocate for the development of tools with which to escape the control of national governments (Wikipedia-free Encyclopedia 2015). The claims that globalization will lead to a reduction of world poverty and increasing prosperity worldwide might have proved to be quite accurate, but it is safe to say that the new economic relations created by the process of globalization open great opportunities for multinational companies, which they largely used.

According to the definition of the International Labour Organization, multinational companies are all companies whose headquarters are located in one, home state, about the plants and other operating units in another country, i.e. host country. Multinational companies often have multiple budgets that are more to the GDP of some countries. It allows a great impact on the local, but also the world economy, and thus of great importance for international relations, especially in conditions of globalization. They are not a new phenomenon, nor does their significance bind exclusively to the process of globalization. But the rules and laws of the free market, promoted and supported by the World Trade Organization, International Monetary Fund and the World Bank, the multinational companies offer great freedom and a wide space for global action. For the new economic world order and globalization is characteristic growth of multinational companies, mainly originating from developed countries and that the wish to maximize profits spread its operations around the world.

„Today's globalization is the only corpse of globalization, because the term "trilateral" would better expressed the present situation. Trilateral means that technological, economic and socio-cultural integration processes are taking place between the three most developed regions of the world (Japan and industrialized countries in South and Southeast Asia, Western Europe and North America). These processes are very intense and significant among these regions rather than between any of these regions and the rest of the world or among the rest of the world” (Quelle 2014).

Transnational companies emerge as a powerful entity in international relations. You do not have to be a huge company to engage in international activities. In international operations can equally be active small and medium-sized companies and can make good profits. Transnational companies control 25% of world production, 2/3 of world trade and are the largest carriers of international transfer of

technology. They are the most important factor of the transfer of capital and dominate the world economy. Transnational companies are the largest owners of technological patents worldwide and many invest in research and development. The most sophisticated technology continues to be exported. They are globally effective, able to stimulate innovation and learning across the company. Focused on similarities and differences in individual countries and focused on creating products towards the market demand, they treat the world as a large market (Cubrovic 2014).

One form of venture capital companies in foreign countries or multinational companies in facilities in the form of companies or subsidiaries in the host country are the FDI (Foreign Direct Investments). The objective of the investor to acquire a lasting interest in an enterprise that works out from his home country is by participating in the management of the company in which it invests capital. Generally accepted threshold of equity ownership in the company in which to invest, to allow the developer to be defined as foreign direct investor participation is at least 10% equity ownership in the company in which the investment is made.

3. TRANSITION COUNTRIES AND FOREIGN INVESTMENTS

All countries, rich and poor, large and small, are interested for foreign direct investment because they bring economic growth, employment, increase the standard of living and so on (Kapital, n.d.). In relentless competition each country tries to offer something special, something different and something that no other country has in order to attract FDI. In the absence of domestic savings that would represent an accelerator of economic development, attracting FDI has become a very important issue, especially for countries in transition. The lack of own resources or their inability to quickly and effectively engage them face these countries the need to attract foreign capital to support their reforms. In this domain, transition countries are faced with the ultimate choice: preferential treatment to foreign investors through tax, customs and infrastructure benefits, in which case, the inevitable risk of market distortions or equal treatment of domestic and foreign investors can be a risk of absence of foreign investments.

The economic advantages for attracting FDI in transition countries are double. First, in countries in transition in which domestic savings are very low to finance economic expansion, FDI are used as a source of external financing. Second, the presence of foreign corporations is associated with positive "externalities" (accompanying activities with propulsive action) that countries can benefit, such as the transfer of know-how and technology to assist in the development and restructuring of enterprises, as in post-privatization stage. The other "externalities" refer to encourage the process of international trade integration, encouraging business competitiveness and helping to form human resources in the host country. The economic benefits arising from FDI are real, and their size varies from country to country. Without a healthy environment conducive to business activities that encourage domestic and foreign investment, competition in the investment benefits, improving qualifications and competitive climate, these benefits can not be realized. Incentives for countries in transition to import capital through foreign direct investment are multiple:

First, FDI for the transition economies are able to provide additional monetary accumulation, which, due to the deficit in the balance of payments that exists in these countries can not and should not be provided through foreign indebtedness. Taking on new loans does not guarantee that they efficiently and costly will be used in the national economy. On the other hand, foreign direct investor is interested in an efficient and cost effective use of invested capital, because it depends on the size of the profits that would be accomplished. Foreign investors their capital draw in areas where land host's comparative advantages, thus contributing to increase the general level of productivity in the host-country, stimulates economic growth and creates conditions for competitiveness of export goods in the world market. Therefore, in the transition countries the FDI are preferred to new borrowing abroad;

Second, FDI often initiate development of new economic activities that previously did not exist in the host country, which further stimulates economic development, strengthen its competitiveness in world markets which causes an increase in public revenues and improve the situation of the state budget;

Third, through FDI provides introduction and development in the host country of new technology, knowledge and experience transferred from abroad, entering the market experience and sales techniques by attracting capital to large corporations, transfer of management techniques that without efficient and rational operation is unthinkable that leads to increased output and international creditworthiness of the host country. Also, it leads to strengthening of its position in relation to the developed countries and the overall performance of the international capital market. Finally, the presence of foreign companies in the domestic market leads to increased competition, which in turn leads to a strengthening of the entrepreneurial spirit of the other companies and the desire to maintain and strengthen its market position;

3.1 Multi-national companies and transition countries: Mutual dependencies

The main reason for investment of multinational companies as foreign investors is the expected high yield investment that strengthens its position in the regional and global market. The investment of multinational companies in the countries in transition can be observed from several aspects:

First and foremost, the main motive of foreign investors to invest their own capital in transition countries is getting access to new markets for sale of own production and then follows utilizing acquired market advantage or creating an oligopolistic market structure. Namely, the desire to achieve a dominant market position, which stems from the desire to achieve long-term profits, is a strong incentive for foreign investors to invest capital in economies in transition countries;

Second, the process of privatization that took place in all countries in transition is a strong motivating factor for foreign investors. Investing his capital in an existing enterprise, foreign investors maximize their profits by avoiding the initial difficulties and costs of operation that may have occurred in the establishment of a new enterprise and on the other hand, by investing in an existing company they inherit the entire network and channels to supply the necessary raw materials and distribution network for marketing of final products to the market. In his book "Corporate venture capital" McNally said that business cooperation is increasingly taking place between strong enterprises, often multinational companies and small enterprises, which may be in transition countries. Studies show that large companies from developed countries run their business relations and investments realized by small enterprises in countries in transition belonging to the activities that are in the middle of the S curve in the industrial branch and not in the early stages when technology and markets are under-developed, but not even at a stage when the competition is consolidated and the rate of sales growth begins to decline (Berber & Culic 2009, p. 302);

Third, countries in transition are a source of expertise, but cheap labor, which multinationals as foreign investors in these countries receive maximum utilization of labor with minimal costs. According Berber and Culic (2009, pp. 302-303), besides low labor costs as a factor of reproduction, multinational companies in the countries in transition "receive" lower prices for energy, raw materials, transportation, utilities and so on;

Fourth, very often the transition countries apply the principle of so-called "national treatment" or the principle of non-discrimination of foreign investors which means that multinational company and all other foreign investors has the same rules for the protection of rights as domestic enterprises;

Fifth, most countries in transition created a system of favorable tax and customs policy for foreign investors and even policy of preferential treatment in terms of customs and tax liabilities for foreign investors. If we add the fact that in almost all countries in transition is given the opportunity for a free transfer of profits from investment that are free of invested capital and guarantees protection against expropriation and other forms of deprivation of invested capital, stimulus is clear that these countries give to multinationals investing capital in the form of foreign direct investment. All these factors make multinational companies as foreign investors to feel confident in the acquired market positions in the host country, which is a sufficient reason to invest their capital in the transition economy (Economy 2010);

4. FOREIGN COMPANIES AND FOREIGN DIRECT INVESTMENTS (FDI) IN MACEDONIA

Analyses made in order to discover the benefits that the transition countries can offer in order to attract foreign capital show that the main obstacles for foreign investors is the unstable political situation, corruption, long and complex procedure for registration of enterprises, inefficient judiciary, the existing tax system in these countries, unresolved property rights, weak banking services, underdeveloped infrastructure and so on (Kikerkova 1998). This was reason enough to make the experts in the country to think how to build a development strategy that will make the country attractive to foreign capital. In addition to meeting the basic conditions - political and economic stability, a stable and convertible currency, rounded, clear and transparent legal system, privatization of enterprises, a framework for encouraging investment and attracting FDI in the country consists of ten basic principles (Mateska 2003):

1. Creating a modern, open and competitive economy that is governed by the principles and legal framework of the European Union. Macedonia concentrates its efforts to implement strong economic reforms focused on providing basic elements for a favorable economic environment. Tax and administrative policies and practices are explained by government, state or public documents, notes and official statements;
2. The principle of "national treatment" that promotes the rule of non-discrimination is crucial for attracting FDI - international companies have the same rights and protection as well as domestic enterprises;
3. Creating a stable, democratic and macroeconomic environment is imperative not only for domestic but also for foreign investors, as well as citizens in general;
4. Promotion of investment in order to attract them, which are based on regional, European and global perspective;
5. The rights of free transfer of profits from the investment and protection from arbitrary expropriation is a condition to stimulate both domestic and FDI;
6. Providing predictable and transparent legislation without administrative obstacles, as an essential factor during the investment decision-making. Non-transparent policies and administrative procedures are to increase investment costs in countries in transition. The need for engagement of additional human resources in order to understand and to implement non-transparent tax policies and administrative procedures that increase project costs, tend to discourage the initial interest of the investors and their current engagement. Non-transparent and inconsistent state policy is most irritating and destructive element in foreign direct investment;
7. Impartiality, efficiency and transparency of the judicial system and other state institutions, as well as law enforcement and the resolution of disputes, is also important for the protection of investors;
8. Fight against corruption, bribery and bias that have appeared corrosive influence of society and limit economic entities in their work. Closely related to the cost of the project and the risks are the real and perceived levels of corruption in countries in transition. The fight against corruption is increasing the costs of the project, while the uncertainty due to the frequency, extent and cost of corruption can increase the risk of the project. Corruption, the rising cost of project risks and acts in order to reduce the expected rate of return and discourages foreign direct investors;
9. Creating a tax policy that will be favorable for investment and will provide benefits for both the developer and the state. One of the most important determinants of foreign direct investment in countries in transition is very often the risk factor. Investments in transition countries typically make assumptions on an attractive business opportunity, but accompanied by a high degree of risk. In some countries, especially in those who fought with great difficulty in attracting foreign direct investment, there are complaints about the uncertainty in the application of tax policy and tax administration and, consequently, uncertainty about the impact of taxes on profits. The change of policy and practice in

some countries emphasize the uncertainty and risk of the project, which tend to hinder the interest of the investor;

10. Developing incentives for investment in accordance with the principles of the European Union, as well as the first screen and the regulations of the World Trade Organization and other international rules and regulations governing trade relations. Republic of Macedonia, as a country in transition achieved fairly steady stream of foreign direct investment, as implemented market reforms. Studies show that in countries in transition where introduced market reforms (Central European countries and the three Baltic countries), foreign direct investment increases several times versus countries where market reforms are institutionalized slower (Belarus and Ukraine) and where the growth of foreign direct investment is very small. This leads to the conclusion that if the economic and political situation is stable and positively received by investors, transition countries can expect that foreign direct investment will grow with further implementation of reforms (State Statistical Office 2007).

The above is strongly supported by the last Doing Business Report published annually by the World Bank. According the report, Macedonia is ranked in the group of upper middle income country. What is interesting is that Macedonia is ranked on the very respectable 30th place in terms of the ease of doing business. It is consistently noted that in the last few years, Macedonia is making progress in creating better business climate for domestic and more importantly for attracting foreign direct investments. Macedonia is ranked before Montenegro (37th), Bulgaria (38th), Greece (61st), Croatia (65st) etc. (Doing Business Report 2015). In other words, according this study, Macedonia is somewhat a leader in creating the country attractive for foreign direct investments and foreign multinational companies such as, Drexlermaer, Johnson Controls etc. who already invested in Macedonia.

From all this it can be concluded that for the country, especially a country in transition as Macedonia, to be assessed positively by foreign investors need stable economic and political conditions and the creation of a healthy business environment. Increasing investments necessary to accelerate economic growth and development of the country directly depend on employment, social benefits and improving the quality of life and standard. If attract FDI and they are well used they may be generating a lot of positive effects expressed by raising the productivity and competitiveness of enterprises in world markets (International Labor Organization n.d.). Macedonia strongly works towards greater transparency and building better business climate. It is a country strategic priority on its way to become a full member of European Union.

5. CONCLUSIONS

Globalization is a process that dictates the movement of the world economy. It is multidimensional, but the greatest effect on the world economy has the economic effects of globalization. The dominant form of economic relations within the globalization of the world economy is the international movement of capital, which has reached proportions that have marked the development not only of individual regions and countries, but the reproduction of the world economy. In the center of the main driving forces of internationalization of economic life are multinational companies. One form of venture capital companies in foreign countries or multinational companies in facilities in the form of companies or affiliates in the host country are FDI. The economic advantages for attracting FDI in transition countries are double. On the one hand, FDI is used as a source of external financing, and on the other by their presence in the countries in transition leads to positive supporting activities with propulsive action. Macedonia as a developing and transition country is strongly geared towards attracting FDI, because in recent years has made changes in the legal framework in order to provide conditions for investment of foreign capital. The country with the promotion of investment and the creation of a democratic and stable macroeconomic environment in which international companies are subject to the same rules as for domestic enterprises, secure the right of free transfer of capital and profits of foreign investors, conducted policy to reduce taxes and tax exemptions to foreign investors, strengthened the fight against corruption and so on. All the above created conditions for multinationals

as foreign investors are to feel confident in the acquired market positions in the host country as a sufficient reason to invest their capital in the economy in transition as Macedonia.

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