

## ATTRACTIVENESS OF THE NORTH MACEDONIAN MARKET FOR TURKISH FOREING DIRECT INVESTORS

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**Abstract:** In line with the excellent political relations, economic cooperation between the Republic of Turkey and the Republic of North Macedonia has gained significant momentum over the past years. Turkish investments in North Macedonia have increased exponentially, and together with their Macedonian partners, Turkish investors continue to seek new areas for additional investments. Turkish investments in the Republic of North Macedonia constitute a win-win situation for Turkey as well as North Macedonia. Turkish investments promote development of the North Macedonian economy and create employment in the country, which faces high unemployment rates. On the other hand, the rising interest by Turkish investors underscores the confidence in the North Macedonian economy and highlights the potential for profitable investments.

This article is searching the attractiveness of the North Macedonian market for direct foreign investments of the international companies from the Republic of Turkey. The theoretical background is explaining the term attractiveness of the market through the governmental strategy's measures for attracting the foreign direct investors, as well as lawfully published incentives and subsidies. Secondary data shows that currently, more than 100 Turkish companies are active in the Republic of North Macedonia, with more than 1 billion US Dollars of actual and committed investments, as brownfield and greenfield investments. Despite of the economic attractiveness of the North Macedonian market, the Turkish investors are eager to invest also due to the excellent political relations between the two governments, as well as, the cultural and historical ties between the peoples of the both countries.

**Keywords:** foreign direct investments, market, attractiveness, Republic of North Macedonia, Republic of Turkey.

### 1. INTRODUCTION

In the period of globalization, the contemporary literature and practice identified the several basic elements of market attractiveness. First element is market potential. The companies should consider the market as a potential for their high degree of success in obtaining different advantages in market share and high degree of inherent growth potential of company's products and services. Also, the companies value target markets that fit the core competences of the companies. The second element is the market accessibility. The companies value the easy accessibility markets, without entry barriers, in direction of geographically and infrastructure accessibility as well as underserved clients. At the same time the companies value markets which do not have significant entry costs in terms of capital, technology or sales, marketing or supply chain management. The other element is the level of competitive concentration where the level of competition is not concentrated in larger competitors which is giving the better position of the company to the targeted markets. Comparison of the elements of attractiveness of one market with other markets is giving us the competitive advantages of the market. Comparative advantage is the ability of one economic actor (an individual, a household, a firm, a country, etc.) to produce some particular good or service at a lower opportunity cost than other economic actors can. While the concept of "comparative advantage" has appeared in the 19th century with a relatively limited scope, it has developed over time to include various additional sources. Over time, factor endowments, such as geographical features, historical development and political stability, social and demographic issues and economic development have begun to be counted as sources of comparative advantages. On the other hand, recent studies have introduced many more sources, such as differences in various institutions, differences in climate, differences in culture, etc

In this article, various elements of the attractiveness and comparative advantages of the Republic of North Macedonia have been explained with a certain emphasis on the Turkish firms investing in North Macedonia, in order to find out why the Turkish companies invest in North Macedonia and which type of investment they choose to make. With regards to North Macedonia, politics, geography, geostrategic positioning, cultural and historical backgrounds, climate, government policies, membership to the Transatlantic institutions, namely to the EU and NATO, play a crucial role in attracting foreign investments to the country. This is particularly the case for the

Turkish companies, which find the Macedonian business environment relatively easily accessible and profitable for their investments.

Turkish companies have invested more than 1 billion US Dollars in the Republic of North Macedonia since its independence. These investments have steadily increased over the last few years. As mentioned, the reasons of some Turkish companies' investment decisions were examined in terms of Macedonia's comparative advantages. Also, the Turkish companies are present with their Brownfield and Greenfield investments on the Macedonian market. were elaborated on.

## 2. LITERATURE REVIEW

All literature on the term “comparative advantage” gives us descriptions of conceptualization of the term in history. “Nations and Firms in the Global Economy” (Brakman, 2006) provides a substance for evaluating how the meaning of the term developed over time. In addition, Comparative Advantage: The Theory Behind Measurement” (Deardorff, 2011) offers a thorough analyses of the term.

The broad definition of the comparative advantage, the sources of which are well outlined in OECD, 2011, “Globalization, Comparative Advantage and the Changing Dynamics of Trade”, is used within a different realm in this article. It is applied on visualizing the main reasons of attractions of the Republic of North Macedonia for foreign investments, specifically on Turkish investments in the country.

The link between institutions and comparative advantage has been discussed for centuries by many economists. Although the effect of the performance of the institutions in a country might differ in accordance with the type of the good produced, institutions which promote innovation and commercial enterprise might be crucial for many types of products. Therefore, institutional sources of comparative advantage are considered as important as the traditional factor endowments, both in statistical and economic terms.

According to Ricardo and Heckscher-Ohlin theories, physical and human capital accumulation in addition to technology and innovation are main sources of growth of comparative advantage.

Institutions are important determinants of comparative advantage and they can be effective in many different channels. In countries where there is lack of institutional capabilities, kin-and ethnic based networks and vertical integration can be used as substitutions (Gopinath, 2014), which might negatively affect the predictability and transparency of the commercial outcomes.

There is not enough study on the effect of cultural beliefs on the comparative advantage. However, there are a few studies which provide some evidence on how “trust” affects aggregate trade and also its composition.

Labor market institutions are also considered to be important sources of comparative advantage. Arnaud Costinot studied the effects of labor market on comparative advantage. According to him, better institutions and higher levels of education are complementary sources of comparative advantage in the more complex industries. Moreover, under free trade, a country would specialize in more complex goods if the workers are efficient. (Costinot, 2009)

On the other hand, if in a country the workers can effectively be monitored then that country might have a comparative advantage in complex goods (goods that require many tasks). This is the result of the trade-off between productivity gains from task specialization and productivity costs of task specialization.

Labour market flexibility plays an important role as a source of comparative advantage. Studies show that countries with more flexible labour market will have comparative

advantage in industries that require higher gross job flow (Trefler, 2014). Also, if countries differ in labour market institutions, comparative advantage can arise even when certain production capabilities (resources and technologies) of them are the same (Cunat and Melitz, 2012).

According to the World Bank's definition, Foreign Direct Investment refers to “the sum of equity capital, reinvestment of earnings, and other capital”. In direct investment, a resident of one country is expected to have control or influence on the administration of a company which is established in another economy. Again, in accordance with the World Bank definitions, the criterion of a foreign direct investment's existence is that a 10 percent or more of the ordinary shares of voting should be owned by the foreign enterprise.

In foreign direct investment (FDI), the foreign company is also considered to be resident in a country has a long-term interest in the economy of that country. The long-term interest stems from the permanent relationship between the direct investor who is a resident of a foreign country and the direct investment he makes in the host country (OECD, 2008).

A company which decides on being multinational that is to say to invest in a foreign country, should choose between greenfield investment and brownfield investment, or between vertical and horizontal investment.

In this article, two types of foreign direct investments, greenfield investment and brownfield investment, will be examined in order to shed a light on the reasons behind the decisions of Turkish companies which invest in the Republic of North Macedonia.

### 3. LEGISLATIVE FRAMEWORK AND BUSINESS CLIMATE FOR THE FOREIGN DIRECT INVESTMENTS IN THE REPUBLIC OF NORTH MACEDONIA

The legal system does not provide a single law on FDI. The legal framework on FDI is created by a number of different laws such as: the Companies' Law, the Securities' Law, the Profit Tax Law, the Law on Personal Income Tax, the Law on Value Added Tax, the Law on Foreign Trade, the Law on Takeovers, the Law on Foreign Exchange, the Law on Investment Funds, the Banking Law, the Law on Supervision of Insurance, the Audit Law, etc.

In 2018 the Law on Financial Support for Investments (LFSI) was published with the aim to stimulate the economic growth and development, and to increase the employment and the competitiveness of the North Macedonian economy. The LFSI regulates the types of the financial support for investments, the amount of the financial support, the conditions, the manner and the procedure for granting financial support to business entities which will invest in the Republic of North Macedonia. The Law envisages two types of financial support: (1) Financial support for investments for creating new jobs; establishment and promotion of cooperation with domestic supplies; establishment of organizational forms for technological development and research; investment projects of significant economic interest; growth of capital investments and revenues and purchase of assets from entities with difficulties and (2) financial support for competitiveness for: increasing the competitiveness on the market; winning new markets and increasing sales.

The Republic of North Macedonia is a party to 38 Bilateral Agreements for Mutual Protection and Encouragement of Foreign Investments. This agreement is also signed with the Republic of Turkey. It is also a party to the Convention on the Settlement of Investments Disputes between States and Nationals of Other State.

Related to the incentive measures and privileges, the Republic of North Macedonia has a flat tax rate of 10% for corporate and personal income tax purposes. Investors are eligible for reduction in the profit tax base by the amount of prior profit reinvested in tangible assets, such as real estate, facilities and equipment and intangible assets, such as computer software and patents used for expanding the business activities of the entity.

The Law on Technological Industrial Development Zones provides for a special tax treatment for any investor who invests in the appointed zones. Generally, these incentives include ten-year tax holiday from profit tax for entities performing their business activities in the zones; certain exemption from value added tax (VAT) for trade made within the zones and imports in the zones; tax holiday from personal income tax on salaries to all workers employed at the entities carrying out business activities in the zones in the period of 10 year.

According to the World's Bank Doing Business Report for 2019, the Republic of North Macedonia was overall ranked on the 10<sup>th</sup> place in the world in regard of the "easy of doing business" With this ranking the Republic of North Macedonia remained among the top global reformers. Additional progress was registered in the last years in the indicator "protecting minority investors" where the country was ranked on the 7<sup>th</sup> place. Also 31<sup>st</sup> place was recorded in the area of paying taxes due to the mandatory VAT payment via the e-tax system and the increased usage of the electronic system. In Table 1. ranking of the country according to 10 indicators of the World Banks' Doing Business Report 2019 is presented.

**Table 1. Ranking of the Republic of North Macedonia according to Doing Business Report 2019**

MACEDONIA, FYR	Europe & Central Asia	GNI per capita (US\$)	4,880
Ease of doing business rank (1–190)	10	Ease of doing business score (0–100)	81.55
Population			2,083,160
<b>Starting a business</b> (rank)	47	<b>Getting credit</b> (rank)	12
Score for starting a business (0–100)	92.08	Score for getting credit (0–100)	85.00
Procedures (number)	4	Strength of legal rights index (0–12)	10
Time (days)	14	Depth of credit information index (0–8)	7
Cost (% of income per capita)	0.9	Credit bureau coverage (% of adults)	100.0
Minimum capital (% of income per capita)	0.0	Credit registry coverage (% of adults)	40.7
<b>Dealing with construction permits</b> (rank)	13	<b>Protecting minority investors</b> (rank)	7
Score for dealing with construction permits (0–100)	83.38	Score for protecting minority investors (0–100)	80.00
Procedures (number)	9	Extent of disclosure index (0–10)	10
Time (days)	91	Extent of director liability index (0–10)	9
Cost (% of warehouse value)	3.7	Ease of shareholder suits index (0–10)	5
Building quality control index (0–15)	13.0	Extent of shareholder rights index (0–10)	8
		Extent of ownership and control index (0–10)	7
		Extent of corporate transparency index (0–10)	9
<b>Getting electricity</b> (rank)	57	<b>Paying taxes</b> (rank)	31
Score for getting electricity (0–100)	81.43	Score for paying taxes (0–100)	84.72
Procedures (number)	3	Payments (number per year)	7
Time (days)	97	Time (hours per year)	119
Cost (% of income per capita)	196.1	Total tax and contribution rate (% of profit)	13.0
Reliability of supply and transparency of tariffs index (0–8)	5	Postfiling index (0–100)	56.36
<b>Registering property</b> (rank)	46	<b>Enforcing contracts</b> (rank)	37
Score for registering property (0–100)	74.50	Score for enforcing contracts (0–100)	67.79
Procedures (number)	7	Time (days)	634
Time (days)	30	Cost (% of claim value)	28.8
Cost (% of property value)	3.2	Quality of judicial processes index (0–18)	14.0
Quality of land administration index (0–30)	25.0	<b>Resolving insolvency</b> (rank)	30
		Score for resolving insolvency (0–100)	72.69
		Time (years)	1.5
		Cost (% of estate)	10.0
		Recovery rate (cents on the dollar)	48.0
		Strength of insolvency framework index (0–16)	15.0

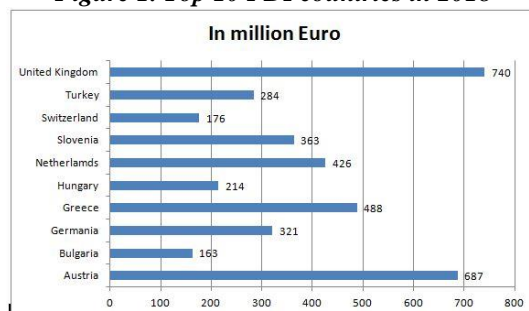
Source: Doing Business 2019 Report

According to Doing Business 2019 Report, the Republic of North Macedonia compared with previous year has improvement in the area of Dealing with construction permits, made the construction permitting process less costly by reducing the land development fees, that is ranking on the 13<sup>th</sup> place in the world.

#### 4. TURKISH FOREIGN INVESTMENT IN THE REPUBLIC OF NORTH MACEDONIA

The peoples of Turkey and North Macedonia traditionally share close historical, social and cultural bonds, which today constitute a firm basis for the excellent and deep-rooted relations between the two countries. The ethnic Turkish community in North Macedonia certainly facilitates the promotion of these relations. Undoubtedly, in addition to politics, economics also lies at the forefront of the extensive cooperation between Turkey and North Macedonia. Turkey's staunch support for the Republic of North Macedonia regarding its foreign affairs priorities such as its membership aspirations to NATO and to the EU, and the close political cooperation between the two countries, contribute to the excellent bilateral relations between the political and economic interlocutors, as well as between the peoples of the two countries.

*Figure 1. Top 10 FDI countries in 2018*

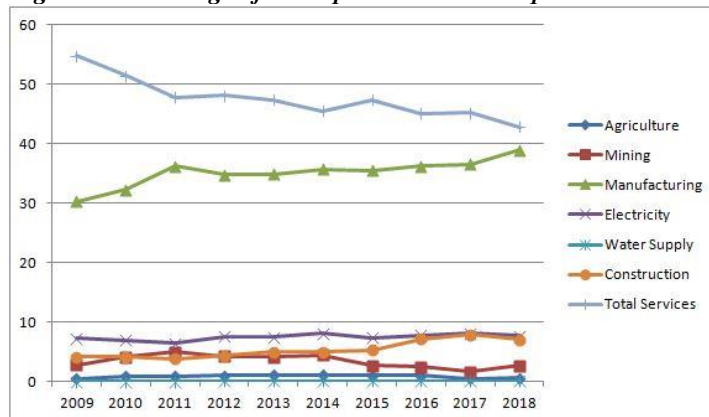


Source: Database of the National Bank of North Macedonia

In line with the excellent political relations, economic cooperation between Turkey and North Macedonia has gained significant momentum over the past years. Turkish investments in North Macedonia have increased exponentially, and together with their Macedonian partners, Turkish investors continue to seek new areas for additional investments. Republic of Turkey is continuously on very high position related to the amount of the investments in the Republic of North Macedonia. According to the database of the National Bank of North Macedonia the top 10 countries for foreign direct investments in 2018 are United Kingdom with 740 million euro investments, Austria, Greece, Netherlands, Slovenia, Germany, Turkey with 284 million euro, Hungary, Switzerland and Bulgaria with 163 millions euro investments in 2018 (Figure 1).

Sectors that are the most interested for foreign direct investments are total services (that include trade, banking and IT and telecommunication services etc.), then manufacturing and less attractive are agriculture and fisheries and water supply. But, in the period 2009-2018, foreign direct investments in total services recoded decrease from 54,8% in 2009 to 42,8% in 2018. The investments in manufacturing in the certain period increased from 30,3% in 2009 to 39% in 2018 and in construction from 4,1% in 2009 to 7,1% in 2018. Investments in water supply are minor (Figure 2).

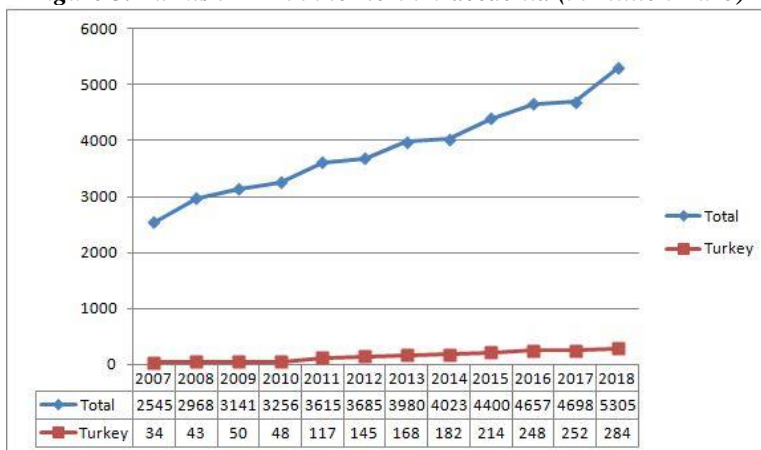
*Figure 2 Percentage of FDIs per Sectors in the period 2009-2018*



Source: Database of the National Bank of North Macedonia

Total foreign direct investments in the Republic of North Macedonia in the period 2007-2018 recorded continuous progression from 2.545 million euro in 2007 to 5.307 million euro in 2018. Investment in the Republic of North Macedonia was uplifted markedly in 2014 as a result of public road, rail and energy infrastructure projects and new Foreign Direct Investments. In parallel with the increasing investment import demand has increased as well (EU Commission, 2015). Same trend of increase is recorded for foreign direct investments of the Republic of Turkey that permanently increase from 34 million euro in 2007 until 284 million euro in 2018 (Figure 3).

**Figure 3. Turkish FDI in the North Macedonia (in million Euro)**



Source: Database of the National Bank of North Macedonia

There are several institutions in Macedonia which try to promote Turkish investments in the country. The Macedonian-Turkish Chamber of Commerce (MATTO), for instance, plays a crucial role in furthering the economic and commercial relations between the two countries.

There are more than 100 Turkish companies which have invested in Macedonia, or which have been planning to invest in the country. On the other hand, there are also Turkish companies which are planning to invest in Macedonia in the near future. In this paper, in order to shed a light on the content and the amount of Turkish investments, some major Turkish companies have been analyzed.

Most of the Turkish companies invested in Macedonia so far are listed below. The following names of the Turkish companies are all members to Macedonian Turkish Chamber of Commerce (MATTO):

Halkbank, TAV Airports, Turkish Airlines, Ramstore, Süttaş, Cevahir Holding, Acıbadem Hospital, European Eye Hospital, Newborn IVF Baby Center, Sante Plus Hospital, Pera Construction, LC Waikiki, Novak Group, International Balkan University, Elif Construction, Tab Food (Burger King), Koton, Yağyemezler, Novatek, Vardar Dolomit, Levidia, SolidPaas, Hotel Izgrev, Kürüm Konti, Portline, Çiftiyıldız Marble, Kale Ltd, Armaneks Palamut Group, Okean Kom, Makro Meat, Maç Group, Liva Time-İstanbul Kebap, Anatolia Restaurant, Actual Club, Altınbaş, Evar Cosmetics, Badem Tour, İlfı Textile, Sinan Bezircioğlu Construction, Levidiagro Rice Factory, AKSA Natural Gas, Aselsan, Limak, Kaltun Mining, Sun Flower Int, Akateks/Aka Group, Kutanoğlu Construction, ANT Energy, İstem Medical, Matek Medical, Mensan Automobile, Oxi Group, Panamed, Çelmak Agriculture Equipments.

The biggest part of the Turkish investments is in the area of brownfield investments. One examples in browfield investments analyzed in this paper is Süttaş.

Süttaş's subsidiary in the Republic of North Macedonia, Balkanska Mlekara Doel has entered into the Macedonian market in 2012. Süttaş embarked in brownfield investment in the country by taking over the bankrupted old "Swedmilk" milk factory. Süttaş has around 100 employees and has initially invested 20 million Euro in Macedonia. However, it aims to increase the amount it has invested and the number of its employees' up to 250 in the near future, depending on the course of its existing business. Situated at the entrance of Skopje within a covered area of 25.000 m2, Süttaş's factory has a capacity of 70 million liters of annual milk production. The factory is producing, milk, yogurt, cheese and ayran and it aims to enlarge its production capacity to include the wider markets in the Balkan region within its target zone.

One example of Greenfield investment is Cevahir Holding/Turmak Macedonia. As one of Turkey's prominent construction companies, Cevahir Holding included Macedonia among its foreign investments in 2011. Cevahir Holding, continues its construction of a project called "Sky City" in the Municipality of Aerodrom in Skopje. This project includes the construction of 4 skyscrapers, a shopping mall together with 1250 apartments with some facilities for several services. Cevahir holding has also bought an 850 acre of land at Vodno and begun to construct



the “Sun City” Project which will consist of luxurious residences. These two projects of Cevahir Holding amount to more than 300 million Euro.

For the purposes of this paper the interviews with the CEOs from Sūtaş and Chevahir holding were made in order to see what are the main reasons for their decision to invest in the Macedonian market?. The conclusions of the interview are given in the Conclusion part of this paper.

## 5. CONCLUSION

Total foreign direct investments in the Republic of North Macedonia in the period 2007-2018 recorded continuous progression from 2.545 million euro in 2007 to 5.307 million euro in 2018. Same trend of increase is recorded for foreign direct investments of the Republic of Turkey that permanently increase from 34 million euro in 2007 until 284 million euro in 2018. Empirical data, gathered directly from Turkish companies by interviews with their CEOs, shown us the reasons why the Turkish investors are choosing Macedonian market for investments.

The geographical position of the Republic of Macedonia, at the crossroads of the two European transport corridors, and its mild climate; comparably cheap and well qualified labor force; ease of doing business; its membership to the main international institutions such as the WTO, and being a signatory to the SAA, EFTA and CEFTA; its bilateral free trade agreements with Turkey and Ukraine; its membership status for the NATO and candidature status to the EU; its foreign trade regulations in compliance with international standards; its macroeconomic stability; sufficient infrastructure, roads, railroads, energy supply etc.; comparably political stability play crucial role in attracting foreign investments in the Republic of North Macedonia. Also it was found out that Turkish companies prefer to invest in the Republic of North Macedonia, because of several reasons, such as the strong chain and network already established within the country among different Turkish companies and NGOs which make them feel secure to invest in North Macedonia, Turkish speaking population in the country, the visa free entrance regime play a crucial role for attracting Turkish investments into the Republic of North Macedonia.

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