FOREIGN CAPITAL, LABOR MARKETS AND EFFICIENCY EFFECTS. A CASE STUDY OF A SMALL OPEN ECONOMY

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Abstract

In Southeast Europe, as in most developing regions, governments offer significant incentives to attract inward investment in expectation to narrow performance gaps between foreign and domestic firms. Hence, this is usually motivated by the prospect of spillover benefits to augment the primary benefits of the national income from new investment. This paper focuses on foreign direct investments and therefore foreign capital movements, labor markets and potential efficiency effects, through a case study of Macedonia. Using macroeconomic and firm-level data, we identify whether foreign ownership can bring about higher efficiency effects. By reviewing possible impact of foreign direct investments induced efficiency effects, we develop comprehensive evaluation on probable positive outcomes on enterprise restructuring due to change of ownership and corporate governance, shifts in labor market and impact on gross domestic product. Further, results give indication that there are good grounds for further development of foreign direct investment policies to facilitate positive and upward climb of this developing economy.

Keywords: Foreign capital, Labor markets, Efficiency effects, Southeast Europe, Macedonia.