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Publisher: Elite Hall Publishing House**Editor in Chief:**

Dr. Muzaffar Ahmed (Bangladesh)
E-mail: muzaahme1@gmail.com

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E-mail: mfbayati@ind.iut.ac.ir

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Email: edgardo.palza-vargas.1@ens.etsmtl.ca

Dr. Solomon Markos
Assistant Professor, School of Commerce
Addis Ababa University, Ethiopia
Email: solomonmarkos5@yahoo.com

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Lecturer, Department of Business Administration
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Email: oluoioe@yahoo.com

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Sweden
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Email: masanda@ug.edu.gh

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COMSATS Institute of Information Technology, Pakistan
Email: khalidzaman@ciit.net.pk

Dr. Kartinah Ayupp
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Email: dpm16@yahoo.co.in

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E-mail: m.alawin@ju.edu.jo

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Vietnam
Email: dtnhuy2010@gmail.com

Dr. Cüneyt AKAR
Associate Professor, Department of Business Administration
Bandirma Onyedi Eylül University, Turkey
Email: cakar@bandirma.edu.tr

Web: <http://ijibm.elitehall.com>

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EU MARKET PERSPECTIVES FOR MACEDONIAN COMPANIES

Tatjana Boshkov, PhD

Assistant Professor

Faculty of Tourism and Business logistics

University "Goce Delcev", Stip, Macedonia

Email: tatjana.boskov@ugd.edu.mk; tatjana.boshkov@gmail.com

Abstract

We live in a world of globalization, where markets have opened up for the trading of goods and services, and therefore huge profits. 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" the hope of being a "link" in this international trading concept and supply chains. This large single European market with huge absorptive power has been opened in front of Macedonia, especially attractive for our Macedonian small and medium enterprises, through which they will raise the level of well-being.

In this paper I discuss first for the conditions in Euro zone, then in Greece, Croatia and Bulgaria and then follow the statement for Macedonia regarding the EU market perspectives for Macedonian companies.

Key words: EU, Market, companies, economy, SMEs internalization.

1. Introduction

Examination of the process of economic convergence is very important, because Macedonia wants to join into the EU. Also, evaluation in terms of the economic criteria of the EMU, the analysis of the Maastricht convergence criteria are with exceptional importance for creation of economic and political decisions in Macedonia. Thus, Macedonia with aim to become a full member of the EU and EMU, must meet the first step to "acqui communautaire" and the second step, known as Maastricht economic criteria for membership. In order to give an answer about Macedonian economic capacity in meeting the economic criteria for EU and EMU membership, there is targeted analysis of the main Macedonian macroeconomic challenges.

This large single European market with huge absorptive power has been opened in front of Macedonia, especially attractive for our Macedonian small and medium enterprises, through which they will raise the level of well-being. Experts clearly, with statistics point to the situation and challenges that this Single European Market offers for Macedonia. In fact, reading their text, the recommendations should

be visible to everyone - both for the academic "business" and for business makers. It's a fact that all this policy and action should get a more dynamic pace and reinforced efforts and demands to succeed in this convergence and exploit the potentials.

The developments in the European Commission, on May 6, 2015 gave a proposal that goes far beyond the creation of their policy, i.e. a vision of deepening the market by utilizing digital tools. The intention of even greater functionality should increase our seriousness for "catching up" with the European integration process. The Internet and digital technologies have transformed the world and the way of life. Existing online barriers mean that citizens miss goods and services, Internet companies are limited, and businesses and the government can't fully benefit from the benefits of digital tools.

2. Review of Europe's economic and social sustainability

Today, regulated services are becoming more important for Europe's growth and its economic and social sustainability. Thus, the EC focuses on the "Energy Union" and "Digital Single Market". While the old single market of goods and unregulated services has been satisfactorily solved through the harmonization of harmonization standards, the new single market challenge is the existence of regulatory enforcement agencies.

In the context of this, the EC has the idea to adapt the European single market to the digital age and all 28 national markets to become truly one market. Their calculations show earnings of € 415 billion per year and accordingly, the number of jobs will grow. In short, the EC is referring to the moment that all this will work by creating standards as an important tool for all different systems to integrate and work together and to take advantage of the power of the digital market that has more than 500 million people in Europe. The first suggestions were given in June 2015, stating what are the users of the benefits - consumers, small and medium-sized enterprises, the creative sector, the industry. At the same time, the EC clarifies the solutions to all possible electronic problems, how the EC facilitates e-commerce, how the rights of consumers will be respected and protected, how will be regulated the prices, value added tax, plagiarism, etc.

So, EU policymakers analyze how businesses can develop a digital single market that: provides confidence through "smart" regulation and by raising awareness of the positive potential for using data; guarantees free flow of data; provides conditions for investment in digital infrastructure to improve access and connectivity; encourages continuous investments in quality digital content for consumers; develops skills, encourages and promotes talent and innovation; and fosters e-commerce by raising awareness of its benefits.

2.1. Euro zone situation

Domestic demand in many parts of the currency bloc will be constrained by elevated unemployment, fiscal austerity and high debt levels. The unemployment rate across the 19 Euro zone member states was 11% in August, down from 11.5% a year earlier. But the labour market is particularly weak in the Euro zone periphery; compare, for example, the low jobless rates in Germany (4.5%) with the rates in Greece (25.2%)

and Spain (22.2%). Moreover, youth unemployment is still above 50% in some regions of Southern Europe, which is a potential source of social instability and low productivity growth for decades to come. Progress in reducing unemployment will remain slow. Unit labour costs have fallen significantly in these countries. This has boosted companies' competitiveness and, crucially, these countries' external positions. Regulatory reform has improved the business environment, for example by increasing labour-market flexibility, boosting investment incentives and opening closed professions.

2.2. Neighbours' trading-partners countries of Macedonia which are part of EU?!

The erosion of trust between Greece and its euro zone partners means that implementation risks have intensified significantly. Once the pretence that membership is irrevocable is removed, attention will turn to other highly-indebted countries in the single-currency area. The conclusion is that countries leaving the Euro zone under duress would suffer large devaluations and be unable to service euro-denominated debts. The global financial system would suffer huge losses and the world economy would be plunged into recession.

After six years of recession, the Croatia's reports are optimistic and it could be expected for investments. There is positive contribution from net exports, as the recovery of the Euro area boost exports and imports will still be subdued due to stagnant private consumption. In 2016, there was broader recovery with a growth rate of 1.1% due to rebounding domestic demand and another year of positive stimulus from net exports. Private consumption finally recovered on the back of improving labor market conditions and higher credit growth. Public consumption, however, is still constrained by consolidation efforts. Given improved utilization of EU funds, investment growth is expected to turn positive.

Today, the main characteristic for Bulgaria is gradual revival of domestic demand. While Bulgaria managed to avoid a pronounced slowdown in economic activity despite last year's failure of Corporate Commercial Bank (CCB) – one of the largest domestically owned banks – there are no signs of a significant acceleration of growth beyond 2% until the end of 2017. At the same time, the labor market has continued to stabilize on the back of declining unemployment and rising employment rates. Declining energy prices have been the main reason for consumer price deflation in Bulgaria since August 2013. Also, it is expected exports to accelerate gradually over the forecast horizon. Monetary easing in the euro area and the resulting depreciation of Bulgaria's anchor currency stimulate its exports. Import growth outpaces export growth, reflecting resurging domestic demand and moderate FDI inflows in recent years.

3. Conditions and policy measures for Macedonian companies

If we get analyzed the statistics above, we can discuss about Macedonian companies perspectives to be part of EU market as to create policy measures. So, what are the benefits for Macedonian companies from EU market integration and what should they implement as SMEs strategy to be more attractive

trading country?

In January 2014, Macedonian government published a Programme for the Support and Development of SMEs. The Programme identifies three policy areas of major importance for SMEs:

- internationalization;
- the reduction of administrative burdens, especially as regards licensing procedures; and
- improved access for financing micro-firms.

This underlines the essential meaning of a) creation of new and innovative firms and graduation of as many informal enterprises as possible into the formal sector, b) SMEs have to become more competitive and productive at their home base and c) SMEs have to achieve a level of competitiveness that will enable them to integrate into the global value chains through trade (exports and internationalization) and investment, including linkages with FDI.

In some direct or indirect way, competitiveness is embodied in the characteristics of the firm for several reasons:

- the current efficiency and effectiveness of the use of resources,
- the willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest), and
- the ability to innovate to improve technology and organization and thus improve efficiency and effectiveness.

Notwithstanding such specificity, past and present experiences and practices of developed countries offer a menu of lessons and best practices for Macedonian SMEs. In this way SMEs in Macedonia always should think on few “moments”:

- Peace and stability is a key requirement for the development of SMEs and for attracting foreign investment.
- SME development requires a crosscutting strategy, (i.e. its success depends on the ability of governments to implement sound macroeconomic policies, the capability of stakeholders to develop conducive microeconomic business environments, and the ability of SMEs to implement competitive operating practices and business strategies).
- Dialogue and partnerships between the stakeholders is essential
- Investments in physical infrastructure and business services and the implementation capacity of policy makers, local level administrators and support structures determine success. Continued dialogue and partnerships between stakeholders into implementation and review of supportive measures, particularly, those related to capacity building in institutions at all levels, yields improved outcomes.

4. Effect of internationalization for Macedonian SMEs

Why is important to support greater internationalisation for Macedonian companies? Could be

mentioned several reason:

1. international SMEs create more jobs
2. international SMEs are more innovative
3. public support goes largely un-noticed
4. European SMEs are more internationally active than US and Japanese SMEs. Overall, European firms are more active than their counterparts in Japan or the US. Even if only extra EU exports are considered they still perform better;
5. most often SMEs start international activities by importing.

Another point of view is that all SMEs benefit to some extent as higher exports raise:

- a) overall income levels, and hence the demand for goods and services sold by domestic demand facing SMEs, and
- b) the demand for goods and services originating from exporting-oriented enterprises.

If we take a look on reports and analysis, SME performance forecast for 2015 showed that total value added generated by SMEs in the EU28 has returned above its pre-crisis level and is expected to continue to rise by another two percentage points by 2015, expanding by 2.8% and 3.4% in 2015. Employment in EU28 SMEs is also expected to increase, growing by 0.7% in 2015. Moreover, the number of SMEs is predicted to increase by 0.38% in 2015. All three groups of SMEs are predicted to expand in 2015, with micro SMEs expected to grow somewhat less rapidly than small and medium-size SMEs. The estimate of annual growth in SME value added in 2013 and 2014 are little changed from the forecasts shown in the 2013 report. This reflects the fact that firms, large and small, focus much more than previously expected on improving their productivity.

Macedonian output growth accelerated in 2014, driven by exports of foreign investors and public infrastructure investment. Solid gains in household spending further bolstered domestic demand. Given high investment- and trade-related import demand, the foreign balance weighed down on economic activity. Further gains in domestic demand are likely to set GDP growth at an even higher pace in 2015 and 2016, while the negative contribution from net exports is expected to diminish. The government remains supportive, with plans for further infrastructure projects, and increases in entitlement spending, relaxing its mid-term fiscal consolidation strategy. The government is expected to continue providing a positive fiscal impulse to domestic demand this year and next, by further increasing social transfers, pensions, and public wages.

At the same time, significant budget funds, and financing by state-owned enterprises, are earmarked for further public infrastructure investment. The recent and envisaged increases in entitlement spending are already leaving their mark on budget performance - in the first two months of 2015, the accumulated budget deficit amounted to some 25% of the full-year budget target, or 0.8% of projected GDP.

Regarding the analysis, the key components of an SME strategy which Macedonia should consider to be competitive on EU market, includes :

- the ability of SMEs to implement competitive operating practices and business strategies.
- Increase efforts to develop and strengthen enabling legal, regulatory and administrative environments at local, regional and national levels, where property rights are clearly recognized, contracts are easily enforced, transaction costs in setting up and doing business are financial, judicial, and other governance systems and procedures.
- Facilitate availability of and access to loan and equity finance, particularly medium to long-term opportunities to improve trade and investment capacity of SMEs.
- Strengthen infrastructure services delivery to facilitate market access and reduce the cost of doing business. More investment is needed in key areas such as energy, transportation and communications.
- Reinforce support structures for private sector/SME development, particularly institutional support. SME development strategy should be coordinated and monitored at the central level through a lean, but high level institution and progress should be reviewed jointly by public and private sector. SMEs need business services to improve their competitiveness (*i.e.* information, consulting, training, accounting, legal, advertising, marketing, courier services, technical and technology services, including testing for standards and certification requirements abroad, product upgrading, etc.).
- Enhance policy coherence at regional, national and international level and actively manage aid effectiveness by: 1) joined-up government nationally; 2) country-based and international donor coordination and pooling of technical and financial resources at appropriate levels; and by 3) complementing official development assistance (ODA) made available to transition and developing countries for capacity building in trade and investment with appropriate market access.

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.

Given the large gap in price and income per capita between Macedonia and the EU, price accepting will be an important source of inflationary pressure, as it faces the existing price distortions in the energy, municipal services, etc. Before accession it can move this factor as inflationary engine around the time of

access where the effect of real convergence on inflation is combined with negative short-term effects of EU accession on fiscal balance, falling interest rates and so on. This will require careful management of the exchange rate. This means that, if the Macedonian real growth accelerates, Macedonia will be more attractive candidate for EU membership, but it will face with more intensive pressures to the exchange rate regime and macroeconomic policies. Labor, capital and product market, all these are transmitters of the monetary and fiscal policy, i.e. creation of a functioning and flexible markets is important, not only in terms of meeting demand competitive single market but in terms of creating a more effective government macroeconomic policy. Regarding Republic of Macedonia, it is important to keep in mind that the economic policies and reforms should be consistent with the reforms and policies of convergence and integration with the EU, as long-term strategy.

5. Conclusion: Macedonia and European Single Market, mission (im)possible?!

However, returning back to 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 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.

If we perceive the structure of Macedonian exports, we will notice a lack of insufficient diversification and dominance of products with a low level of processing, which in fact makes it difficult to get involved in regional clusters (and European) production and distribution. It is precisely because of these facts CEFTA is an important instrument that can contribute to trade growth and regional trade integration. Thus, Macedonia will be a better prepared country in the face of competitive pressures on the European market.

Consequently, the challenge we see in a more active inclusion in the European integration process is accompanied by a premise that emphasizes the importance of regional trade integration and trade growth.

Of course besides CEFTA, additional policies that accelerate trade integration is SAA. The significance and effects that result from them do not mean a solution, because the problem of low competitiveness of domestic products and the weak link between export activities and the promotion of economic growth of the country can be resolved through the domestic policy and by intervening on the

supply side, or the producers and exporters of the Western Balkan countries. Changes in the export structure, referring to the greater added value of the products is the main condition for growth of export competitiveness. Macedonia's trade policy should continue to be complemented with competition policies and additional infrastructure to promote exports and increase productivity in all sectors of the economy.

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