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BUILDING LINKAGE BETWEEN FDI AND EXPORTS OF MACEDONIAN PRODUCTS

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Abstract

Prices of domestic products on international markets are often underestimated because of the poor reputation or ranking the products with a low degree of processing. Namely, it is necessary small and medium enterprises to make efforts in this domain to contribute in a way that they will make the promotion of domestic products, have organized a joint presentation on external markets, will exhibit initiatives for creation of distribution centers. In this regard, the entry of FDI in manufacturing is expected to contribute to the production of high quality products, and distinctive products, which would lead to higher absolute prices, higher productivity and lower unit labor costs of products.

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.

Key words: FDI, company, profits, business, opportunity.

1. Introduction

Globalization brings the threat of a weakened SME sector, since its role in (direct) exporting is less than proportional to its size; this reflects the economies of scale characterizing big markets. But globalization can also increase the importance of a strong SME sector, either where direct SME exports are feasible or where SME subcontractors help keep the country's large exporters competitive. Many markets are too small to have enough large firms to curtail the use of monopoly and oligopoly power, so price-competition and quality-based competition tends to come from SMEs.

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.

Key policy issues are related with creating conditions to attract foreign investors together with policies to encourage and facilitate different forms of cooperation between inward investors and domestic SMEs.

In this way, defining the role for policy to attract FDI includes¹:

- promotional activities;
- creating an appropriate and effective legal and regulatory framework;
- capacity building programmes for potential suppliers that include training and quality assurance;
- wider role of business support services and other intermediaries, which might include partner searching facilities.

6. FDI impact in Macedonia

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.

¹ Srinivasan,T.N. and V.Archana.2011."Determinants of Export Decision of Firms." *Economic and Political Weekly*, 46(7):49-58

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.

8. Conclusion

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.

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