The Effects of Foreign Direct Investments for Host Country's Economy

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Abstract:
Foreign Direct Investment (FDI) is seen as the fundamental part for an open and successful international economic system and a major mechanism for development. In this circumstance, the paper examines the benefits of FDI as a key component for successful and sustainable economic growth and also as a part of a method to social improvement. The aim is to highlight the most important channels through which FDI makes a significant and exceptional impact on the economic development of the host countries. At the same instance, it is important to recognize that, like all things, FDI is not all good no bad. A separate discussion is devoted to the potential negative impacts of FDI flows on host economies.

Keywords: FDI, resource transfer effects, international trade, privatisation

JEL: F21, M0, F40, L33

1. Introduction: The Benefits of FDI for Host Country's Economy

Developing counties, emerging economies and countries in transition, due to advantages related to FDI have liberalized their FDI regime and followed best policies to attract investment. It has been recognized that the maximizing benefits of FDI for the host country can be significant, including technology spillovers, human capital formation support, enhancement of competitive business environment, contribution to international trade integration and improvement of enterprise development. Moreover, further than economic benefits FDI can help the improvement of environment and social condition in the host country by relocating 'cleaner' technology and guiding to more socially responsible corporate policies. All of these benefits contribute to higher economic growth, which is the main instrument for alleviating poverty in those economies. However, the economic impact of FDI is difficult to measure with accuracy. Benefits of FDI do not increase automatically and equally across counties, sectors and local communities. These benefits vary from one country to another and are difficult to be separated and measured. Where FDI entry has large (non-marginal) effects, measurement is even more difficult: there is no precise method of specifying counterfactual (i.e. what would have happened if a TNC or TNCs had not made a particular investment or investments). The assessment of the development effects of FDI generally resorts to one of two approaches. One is the econometric analysis of the relationship between inward FDI and various measures of economic performances. The second is a qualitative analysis of various aspects of TNCs' impacts, without any attempt at calculating a precise relationship or rate of return (UNCTAD, 2006). The latter approach, which is the one adopted in the discussion of host-country impact below, includes, in particular, a consideration of the ways in which the unique characteristics of TNCs interact with the unique characteristics of countries (Dunning, 1993).

1.1. Resource – Transfer Effects

Foreign direct investment can make a positive contribution to a host economy by supplying capital, technology and management resources that would otherwise not be available. Such resource transfer can stimulate the economic growth of the host economy (Hill, 2000).

Capital

As far as capital is concern, multinational enterprises (MNEs) invest in long-term projects, taking risks and repatriating profits only when the projects yield returns. The free flow of capital across nations is likely to be favoured by many economists since it allows capital to seek out the highest rate of return. Many MNEs, by virtue of their large size and financial strength, have access to financial resources not available to host-country firms. These funds may be available from internal company sources, or, because of their reputation, large MNEs may find it easier to borrow money from capital markets than host-county firms would (Hill, 2000).

Jenkins and Thomas (2002) argue that FDI can contribute to economic growth not only by providing foreign capital but also by crowding in additional domestic investment; so it increases the total growth effect of FDI. Bosworth and Collins (1999) provide evidence on the effect of capital inflows on domestic investment for 58 developing countries between 1978-95. They distinguish among three types of inflows: FDI, portfolio investment, and other financial flows (primarily bank loans).They found that about half of each dollar of capital inflow translates into an increase in domestic investment. According to them an increase of a dollar in capital inflows is associated with an increase in domestic investment of about 50 cents. (Both capital inflows and domestic investment are expressed as percentages of GDP.)

Once the capital inflows take the form of FDI, there is a near one-to-one relationship between the FDI and the domestic investment. Moreover, Borensztein et al (1998) found some evidence of a “crowding-in” effect, i.e., that FDI is complementary to domestic investment. A one dollar increase in FDI inflows is associated with an increase in total investment in the host economy of more than one dollar.

Feldstein (2000) emphasized a number of advantages that are related to unrestricted capital flows, such us:

- International flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment.
- The global integration of capital markets can contribute to the spread of best practices of corporate governance, accounting rules, and legal traditions.
- The global mobility of capital limits the ability of governments to pursue bad policies.

Technology

The crucial role played by the technological progress in the economic growth is now widely accepted (Romer, 1994). Technology can stimulate economic development and industrialization. It can take two forms, both of which are valuable. Technology can be incorporated in a production process (e.g., the technology for discovering, extracting and refining oil) or it can be incorporated in a product (e.g., personal computers) (Hill, 2000). However, many countries lack the research and development resources and skills required to develop their own native product and process technology. This is particularly true of the worlds less developed nations. Evidence provides that the vast majority of economic

studies dealing with the relationship between FDI on the one hand and productivity and/or economic growth on the other hand, have found that technology transfer via FDI has contributed positively to productivity and economic growth in host countries (OECD, 1991).

Technologies that are transferred to developing countries in connection with foreign direct investment tend to be more modern, and environmentally 'cleaner', than what is locally available. Moreover, positive externalities have been observed where local imitation, employment turnover and supply-chain requirements led to more general environmental improvements in the host economy.

Management

By transferring knowledge, FDI will increase the existing stock of knowledge in the host country through labour training, transfer of skills, and the transfer of new managerial and organizational practice. Foreign management skills acquired through FDI may also produce important benefits for the host countries. Beneficial spin-off effect arise when local personnel who are trained to occupy managerial, financial and technical posts in the subsidiary of a foreign MNE leave the firm and help to establish local firms. Similar benefits may arise if the superior management skills of a foreign MNE stimulate local suppliers, distributors and competitors to improve their own management skills.

Workers gain new skills through explicit and implicit training. In particular, training in foreign firms may be of a higher quality given that only the most productive firms trade. Workers take these skills with them when they re-enter the domestic labour market. Training received by foreign companies sometimes may be considered under the general heading of 'organization and management', meaning that the host country will benefit from the 'managerial superiority' of MNCs. Lall and Streeten (1977) emphasize three kinds of managerial benefits:

- Managerial efficiency in operations arising from better training and higher standards;
- Entrepreneurial capability in seeking out investment opportunities;
- Externalities arising from training received by employees (such as technical, executive, accounting and so on) (Dunning, 1993).

1.2. Employment Effects

The effects on employment associated with FDI are both direct and indirect. In countries where capital is relatively scarce but labour is abundant, the creation of employment opportunities – either directly or indirectly – has been one of the most prominent impacts of FDI. The direct effect arises when a foreign MNE employs a number of host country citizens. Whereas, the indirect effect arises when jobs are created in local suppliers as a result of the investment and when jobs are created because of increased local spending by employees of the MNE. In order to illustrate the employment effects in host country we will use the example of Toyota's investment in France. Based on a data published (Hill, 2000) this investment created 2000 direct jobs and conceivably another 2000 jobs in supporting industries.

The domestic private sector can benefit by entering into business relationships supplying inputs to these new market entrants (backward linkages) or processing a foreign investor's products (forward linkages). By promoting both forward and backward production connection with domestic industries and other sectors, for instance through

subcontracting systems between a foreign firm and local subcontractors who supply spare parts, components or semi-finished goods to the foreign firm, extra jobs are created ultimately and further economic activity encouraged.

The employment effects of FDI are of considerable interest to host developing countries: in many of them, a key requirement for sustainable growth is the ability to absorb the human resource released from agriculture into manufacturing and service industries. The quantitative effects of FDI on employment globally have been found to be modest, but somewhat larger in host developing than host developed countries, and especially so in the manufacturing sector (World Investment Report, 1999).

According to Nzomo (1971), a study done in Kenya showed that FDI made a modest contribution with regard to the total employment creation since direct employment creation was small while no evidence on its indirect employment creation. This may suggest that foreign firms operated in that country have no production linkages with local firms. On the other hand, Aaron (1999) states that FDI was likely directly responsible for 26 million jobs in developing countries worldwide. In addition, for every single direct job created by FDI it was estimated that approximately 1.6 additional jobs were indirectly created through production linkages between FDI and local sectors.

1.3. Balance of Payments Effects

FDI's effect on a country's balance of payment accounts is an important policy issue for most host governments. There are three potential balance of payments consequences of FDI. First, when an MNE establishes a foreign subsidiary, the capital account of the host country benefits from the initial capital inflow. However, this is a one-time only effect. Second, if the FDI is a substitute for imports of goods or services, it can improve the current account of the host country's balance of payment. Much of the FDI by Japanese automobile companies in the US and UK, can be seen as substitute for imports from Japan. A third potential benefit to the host country's balance of payment arises when the MNE uses a foreign subsidiary to export goods and services to other countries. The evidence based on empirical research on the balance of payments effect of FDI, indicates that there is a difference between developed and developing countries, especially with respect to investment in the manufacturing industries. Dunning (1961, 1969) while assessing the impact of the US FDI in Britain, he estimated a positive effect of around 15 percent of the total capital invested. Nevertheless, his research only dealt with the direct effect of FDI, which results in noticeable flows in the balance of payments. The indirect effects, on the other hand arising from the changes in the income of residents, or changes in consumption patterns were not considered.

1.4. International Trade

The impact of FDI on host country international trade will differ, depending on its motive – whether it is efficiency-seeking, market-seeking, resource-seeking or strategic asset-seeking. FDI can have a great contribution to economic growth in developing countries by supporting export growth of the countries. Output resulting from efficiency-seeking FDI is typically intended for export, and therefore the impact of such FDI is likely to be an increase in exports from the host country. If local firms provide inputs to affiliates producing goods for exports, the local content of value added exports would be much greater. In cases where intermediate goods are imported from outside the host economy, efficiency-seeking FDI will increase export as well as imports. Nevertheless, since certain

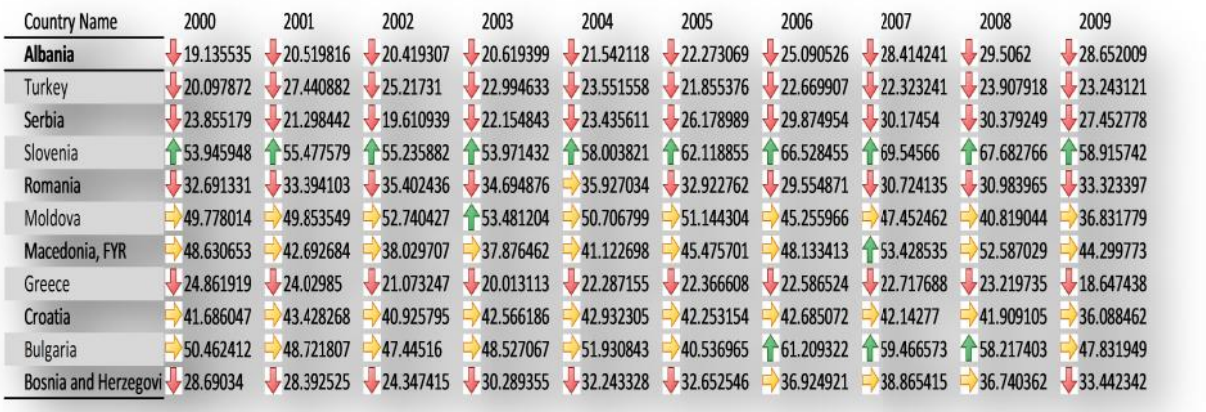
value-adding processes take place within the host economy, the overall impact will be an improvement in the trade balance in the long run. In the literature, export growth is often associated with trade liberalization, although it also means more imports.

However, we should try to answer the questions if there is a positive correlation between trade liberalization or export growth in specific and economic growth; and also if there is a positive link between FDI and export growth. In order the answer the first question, economic theory offers many reasons to suppose that trade liberalization or export growth stimulate economic growth, since country's openness offers many benefits including access to global market, technology and to appropriate intermediate and capital goods and raw materials; the benefits associated with economies of scale and market competition. Concerning the other question, Balasubramanyam et al (1996) tested the hypothesis that export-promoting (EP) countries enjoy greater efficiency from FDI using a production function in which FDI is considered an additional input to domestic capital and labour. They disagreed that, in view of the fact that it is a prime source of human capital and new technology for developing countries, the FDI variable captures the externalities, learning by watching, and spillover effects. The outcome suggested that FDI is a vital engine for export growth in developing countries. Blomstrom and Kokko (1996) analyzed empirical evidence on host country effects of FDI, and found that global companies played an important role in export growth in their host countries, but the precise nature of the impact of FDI varies between industries and countries.

Beyond the standard gains from trade, FDI inflows can provide dynamic gains from technology transfer and skill-building. These benefits are especially important in developing countries where foreign technology and managerial expertise are lacking.

High values of this indicator are preconditions for accelerated growth and competitiveness of the economy. Distinction of the indicator among the SEE countries is considerable, ranging from around 50% for the best performers Croatia, Macedonia and Slovenia to 20% for Turkey; which is expected to put further efforts to encourage its export volume. Transport equipment, refined petroleum products and chemical products are major export commodities for Croatia whose main trade partners are Italy, Bosnia and Herzegovina and Germany. Manufactured goods, food, beverages and tobacco were key export sectors for Macedonia with main export partners Serbia and Montenegro, Germany and Greece. Slovenia has predominantly exported motor cars and pharmaceuticals to its major trade partners Germany and Italy. By providing the export distribution networks and the information needed to enter foreign markets, FDI can establish a niche for domestic firms to export (Markusen, Venables, 1999).

Figure 1.1 Exports of goods and services (% of GDP)



Country Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Albania	19.135535	20.519816	20.419307	20.619399	21.542118	22.273069	25.090526	28.414241	29.5062	28.652009
Turkey	20.097872	27.440882	25.21731	22.994633	23.551558	21.855376	22.669907	22.323241	23.907918	23.243121
Serbia	23.855179	21.298442	19.610939	22.154843	23.435611	26.178989	29.874954	30.17454	30.379249	27.452778
Slovenia	53.945948	55.477579	55.235882	53.971432	58.003821	62.118855	66.528455	69.54566	67.682766	58.915742
Romania	32.691331	33.394103	35.402436	34.694876	35.927034	32.922762	29.554871	30.724135	30.983965	33.323397
Moldova	49.778014	49.853549	52.740427	53.481204	50.706799	51.144304	45.255966	47.452462	40.819044	36.831779
Macedonia, FYR	48.630653	42.692684	38.029707	37.876462	41.122698	45.475701	48.133413	53.428535	52.587029	44.299773
Greece	24.861919	24.02985	21.073247	20.013113	22.287155	22.366608	22.586524	22.717688	23.219735	18.647438
Croatia	41.686047	43.428268	40.925795	42.566186	42.932305	42.253154	42.685072	42.14277	41.909105	36.088462
Bulgaria	50.462412	48.721807	47.44516	48.527067	51.930843	40.536965	61.209322	59.466573	58.217403	47.831949
Bosnia and Herzegovi	28.69034	28.392525	24.347415	30.289355	32.243328	32.652546	36.924921	38.865415	36.740362	33.442342

Source: World Bank national accounts data, and OECD National Accounts data files.

1.5. Effect on Competition

According to an OECD report (OECD 2002, p.16) the presence of foreign enterprises may greatly assist economic development by spurring domestic competition and thereby leading eventually to higher productivity, lower prices and more efficient resource allocation. Increased competition tends to stimulate capital investments by firms in plant, equipment and R&D as they struggle to gain an edge over their rivals. FDI's impact on competition in domestic markets may be particular important in the case of services, such as telecommunication, retailing and many financial services, where exporting is often not an option because the service has to be produced where it is delivered.

Julius (1990, p. 97) for example, writes that: "As with trade, increased international flows of FDI should be encouraged because they bring both global and national benefits. They stimulate growth through more efficient production and they lower prices through greater competition". And according to an OECD study, "Like trade, foreign direct investment acts as a powerful spur to competition and innovation, encouraging domestic firms to reduce costs and enhance their competitiveness" (OECD, 1998, p. 47).

2. Cost of FDI to Host Country's Economy

The net benefits from FDI do not accrue automatically, and their importance differs according to host country and condition. Recognition of the economic benefits afforded by freedom of capital movements sometimes clash with concerns about loss of national sovereignty and other possible adverse consequences. FDI, even more than other types of capital flows, has historically given rise to these conflicting views, because FDI involves a controlling stake by often large MNEs over which domestic governments, it is feared, have little power. The controversies have mostly focused on inward FDI, due to sensitivity about foreign control over domestic industry

As we mentioned earlier, this paper will not be focused only on the positive effect of FDI but it will address concerns about the potential negative aspect of host economies, both economic and non-economic. In small economies, large foreign companies can and often

do, abuse their dominant market positions. Based on the literature, it is eminent that FDI is not always in the host county's best interest and therefore it should be controlled.

Countries facing increased inflows of FDI have often experienced unease. Many developing countries have until recently been wary of inward FDI. Even in the United States, the surge of Japanese FDI in the 1980s led to widespread concerns about excessive foreign control and adverse effects on national security, as expressed in the popular press, and in legislative action. Critics of inward FDI argue that there are adverse economic and political effects on the host country. The alleged economic effects include balance of payments deficits, reduced domestic research and development, diminished competition, crowding-out of domestic firms and lower employment, the potentially harmful environment impact of FDI, especially in the heavy industries and the effects on competition in national markets. Economic analysis has shown that most of the alleged economic drawbacks of FDI are of little merit (Graham, E.M; Krugman, P.R, 1995).

Moreover, sometimes some estimated benefits may prove elusive if the host economy, in its current state of economic development, is not able to take advantage of the technologies or know-how transferred through FDI.

The factors that hold back the full benefits of FDI in some developing countries include the level of general education and health, the technological level of host-country enterprises, insufficient openness to trade, weak competition and inadequate regulatory frameworks. On the other hand, a level of technological, educational and infrastructure achievement in a developing country does, other things being equal, equip it better to benefit from a foreign presence in its markets.

2.1. Adverse Effects on Employment

Sceptics about FDI note that not all the 'new jobs' created by FDI represent net additions in employment. In the case of FDI by Japanese auto companies in the US, some argue that the jobs created by this investment have been more than offset by the jobs lost in US-owned auto companies, which have lost market share to their Japanese competitors. As a consequence of such substitution effects, the net number of new jobs created by FDI may not be as great as initially claimed by an MNE (Hill, 2000).

In the case of Republic of Macedonia the high unemployment represents the biggest economic problem and it has a direct effect on low economic growth and the small number of newly opened work places. The restructuring process of the enterprises in the course of transition resulted in increased unemployment in the short run. As expected, the former FDI in the Republic of Macedonia could not significantly influence the employment in the country, neither in scope, nor in quality. In the last 15 years the average amount of foreign direct investments is around US$ 80 million annually, which is not sufficient for significant influence on the economic growth in general, and employment in particular.

2.2. Adverse Effects on Competition

Although in the previous section we outlined how FDI can boost competition, host governments sometimes worry that the subsidiaries of foreign MNEs may have greater economic power than local competitors. If it is a part of large international organization, the foreign MNEs may be able to draw on funds generated elsewhere to subsidize its costs in the host market, which could drive local companies out of business and allow the

firm to monopolize the market. This concern tends to be greater in countries that have few large firm of their own (i.e. less developed countries) or minor concern in most advanced industrialized nations.

2.3. Adverse Effects on Balance of Payments

There are two main areas of concern with regard to the adverse effects of FDI on a host country's balance of payments. First, set against the initial capital inflow that comes with FDI must be the subsequent outflow of earnings from the foreign subsidiary to its parent company. Such outflows show up as a debit on the capital account. Some governments have responded to such outflows by restricting the amount of earnings that can be repatriated to a foreign subsidiary's home country.

A second concern arises when a foreign subsidiary imports a substantial number of inputs from abroad, which results in a debit on the current account of the host country's balance of payment. In the case of Nissan's investment in UK, Nissan responded to concerns about local content by pledging to increase the proportion of local content to 60 percent, and subsequently raising it to over 80 percent (Hill, 2000).

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3. Non-Economic Drawbacks – Environmental Impact and Sweatshops

Another major concern regarding FDI is its environmental impact. Local enforcement of environmental protection legislation that is negligent or weak in relation to foreign firms has led to disastrous consequences in many parts of the world. However, in the global competition among developing country governments to attract FDI, there is often a race to the bottom, which leads countries to offer more relaxed regulations in order to attract foreign investment.

The working conditions of workers in firms sponsored by FDI have also been a concern. The presence of sweatshops in some countries, which subject labourers, who are sometimes child labourers, to dangerous, sub-human working conditions, often in violation of local workplace regulations, is a serious issue. The race to the bottom phenomenon is also present here, as governments minimize the enforcement of workplace regulations in order to attract FDI. Although multinationals pay their workers more than their competitors, many people have complained that multinationals abuse their workers in sweatshop conditions, and have demanded that products from these sweatshops be banned from U.S. markets (Brown, Deardorff and Stern, 2004).

In order to control sweatshops, two major anti-sweatshop organizations have emerged:

- Fair Labor Association (FLA, 1998) and the

- Workers Rights Consortium (WRC, 1999).

FLA is more closely associated with the apparel industry, whereas WRC more closely associated with unions. Both organizations have developed codes of conduct and enforcement mechanisms. Such potentially adverse effects of FDI should not be ignored. After all, even when FDI provides net gains to an economy, the presence of a broad array of adverse effects from FDI, especially for particular groups or sectors within the economy, means that countries must seriously consider the extent to which they compensate those who lose.

4. Privatization as a Major Channel for Attracting FDI

The most important progress in many developing and transition economies are large amount of inflow of FDI and privatization of the state-owned companies' across different sectors. All governments in the SEE region have stated their commitment to privatization and the principles of the market economy. Privatization has been a significant revenue earner and a major channel for foreign direct investment (FDI), which in turn is a source of benefits not only to the receiving firm but also to the wider economy. However, the level of commitment to privatization has varied across countries. As a result, progress in SEE has generally been slower than in Central Europe and Baltic States (CEB) . There has been a close link between FDI inflows and privatizations in SEE. The annual changes in gross FDI inflows to SEE and in privatization revenues have moved in the same direction over time, except in 1999 when FDI fell slightly but privatization revenues remained floating due to several large transactions in the region.

The benefits of privatization depend not only on how many enterprises are sold off, but also on the method used to privatize them. Enterprise development may be held back by an inappropriate choice of privatization method. Privatization is indeed strongly linked to enterprise restructuring, on average, privatization to outside buyers is associated with 50 per cent more restructuring than is privatization to insiders (people already in the firm at the time of sale) (Djankov, S.; Murrell, P., 2002). The problem with insider privatization is that it often leaves in charge parties with vested interests, which have little incentive to implement changes. This reduces the potential interest of outside investors (Zinnes,C.; Eilat.Y.; Sachs, J., 2001).Countries in SEE have used a variety of privatization methods, including direct sales, vouchers, management/employee buy-outs, and occasionally other means. The chosen method often depends on the size of the enterprise being sold, with auctions common for small enterprises and tenders for direct sales more likely for larger companies. The Table below summarizes the primary and secondary methods used over the transition period in each SEE country.

Table 1.2 Privatization Methods in South East Europe

	Management Employee buy outs (MEBOs)	Vouchers	Direct Sales
Albania	Primary Method	Secondary Method	-
BH	-	Primary Method	Secondary Method
Bulgaria	-	Secondary Method	Primary Method
Croatia	Primary Method	Secondary Method	-
Macedonia	Primary Method	-	Secondary Method
Moldova	-	Primary Method	Secondary Method
Romania	Primary Method	-	Secondary Method
Serbia and Montenegro	-	Primary Method	Secondary Method

Source: EBRD Transition Report 2003

As we can see from the table Bulgaria is the only SEE country using direct sales as the primary method (in common with Hungary, Poland and the Slovak Republic). Although the direct sale procedure is often lengthy and complex, it usually results in the highest privatization revenues and interest of strategic investors. Bulgaria has attracted fresh outside investment through direct sales as well as a significant amount of government revenue relative to GDP. In contrast, mass privatization through the issuing of vouchers to citizens, as favoured by Bosnia and Herzegovina and Moldova (and also Montenegro), does not typically generate either significant government revenue or investment; instead, it leads only to the redistribution of property and often poor quality governance (Hunya, 2000). Albania, Croatia, FYR Macedonia and Romania have followed the Slovenian model of management-employee buy-outs (MEBOs) – insider privatization – as their primary method, with less use of vouchers or direct sales.

In the case of MEBOs, the reason generally given for this assumption is that the new owners – managers and/or employees – have other interests, e.g. saving their jobs, that far outweigh the goal of profit maximization, and may even make it seem totally insignificant. As a result, they do not implement the measures that are almost always necessary, i.e. they fail to restructure the company to meet the new demands of a market economy. The problem with voucher privatization is that each of the new owners holds such a small share of the privatized enterprises that, even though they may well have a genuine interest in profit maximization, it is not economic for them to bear the transaction costs involved in exercising corporate governance. Moreover, the holders of the vouchers generally have neither the know-how, nor the capital, to initiate a restructuring process in "their" enterprise

Privatization has been the main channel for FDI in SEE. Successful large-scale privatizations have provided revenues to government and relieved the burden of losses; moreover they have offered encouragement and guidance for successful restructuring. In Macedonia the privatization turned out to be great priority ever since the transformation of ownership was recognized as crucial for the transition toward free market economy.

The privatizations of State owned enterprises were performed quickly and almost completely in the 90's, mostly through sales to the management and employees of the companies. The Macedonian government has engaged in a final process of privatization / concession of the public sector. After the successful privatization of the telecommunications industry and partial privatization of the energy sector (the national electricity distributor having been sold to EVN from Austria), the Government has ambitious plans to restructure and privatize the remaining publicly-held energy, transport and health sectors. Four loss-making state-owned enterprises including the chemical manufacturer, Ohis, the tobacco producer, Tutunski Kombinat, the electronics maker, EMO and the military equipment production company, Eurokompozit Prilep, are currently up for sale. The deadline for the tenders has been postponed several times due to lack of interest. With the exception of Ohis, which will be sold separately in a tender that has been delayed until further notice, the deadline for the other companies was set for the end of September 2010. Countries that have succeeded in privatizing their former state enterprises primarily by the direct sale method, and in which a large sector of new private enterprises has evolved that choose to operate largely in the formal economy, report higher growth rates than those countries which opted for the MEBO or voucher method and in which the new private sector is still small and/or is forced to operate largely informally. Macedonia falls into this second category. The distinguished foreign companies and banks that have invested in the process of privatization and post privatization in Macedonia are shown in the following table.

The Privatization Agency of the Republic of Macedonia is the key institution responsible for administrating and supporting of the privatization process. According to Forbes Global Magazine, agency's mission is associated with the final goal of the ownership transformation in Macedonia: to improve the efficiency of the country's economy, by establishing well-managed companies, which can successfully compete in the international markets. Macedonia is making significant efforts to attract foreign investors (August 20th, 2001 Issue).

In general, FDI inflows to the SEE region are still driven largely by big sales of state assets – in contrast to CEB, where the large-scale privatization process is approaching completion and the majority of FDI inflows take the form of Greenfield or Brownfield (i.e. investment in an existing, privately owned company) investment. Some political controversies have, however, occurred because the efficiency gains were often associated with sizeable near-term job losses.

In recent years, FDI linked to the privatization of public sector enterprises has resulted in substantial improvements in the supply of services that have strong linkages to the rest of the economy. The privatization of public utilities, transportation, telecommunications and other services can provide substantial increases in productivity to households and businesses in the rest of the economy. Increased capacity, improved management, transfers of technology etc., can allow the FDI to provide a greater supply of services with enhanced quality at a lower price.

In Macedonia, privatization may seems to have been successful in formal terms, or judged on the basis of the statistical overview, but on closer look it turns out to have been a failure and a significant obstacle to growth and employment creation, because the corporate governance structures in the privatized and state-owned enterprise sector have remained virtually unchanged since the start of the reform program. Neither the providers of equity nor the providers of loan capital have put pressure on management to restructure their enterprises to the point where debts can be serviced and profits earned.

Consequently, these enterprises have done nothing to promote growth and employment (World Bank 1999).

5. Conclusions

To reap the maximum benefits from foreign corporate presence a healthy enabling environment for business is paramount, which encourages domestic as well as foreign investment, provides incentives for innovation and improvements of skills and contributes to a competitive corporate climate.

The net benefits from FDI do not accrue automatically, and their importance differs according to host country and condition. The factors that hold back the full benefits of FDI in some developing countries include the level of general education and health, the technological level of host-country enterprises, insufficient openness to trade, weak competition and inadequate regulatory frameworks. On the other hand, a level of technological, educational and infrastructure achievement in a developing country does, other things being equal, equip it better to benefit from a foreign presence in its markets.

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