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"Corporate Strategy and Foreign Direct Investments"

Seadin Xhaferi, PhD.[*], Jadranka Mrsik, PhD[**]

[*]Finance and Accounting Department, State University of Tetovo
[**]Finance Department, University American College Skopje

Abstract

Many developed economies consider foreign direct investment as a vital source for their economic and social development. This paper explores the role and importance of multilateral corporations as well as the impact of FDI on the economic development and growth of the Republic of Macedonia during the period 2002-2011. This paper will also analyze the conditions and motives that encourage multinational corporations to penetrate foreign markets. There is a large number of theoretical and empirical researches in an effort to identify whether FDI has played a positive role in economic development, or whether the country's economic development levels have encouraged foreign direct investment.

In addition to analyzing the relationship between GDP and FDI, this research will be enriched with other factors in order to study the links in a multivariate context. Additional variables include exports and employment, expected to be theoretically linked to FDI and economic development. In this context, the main conclusion of this paper is that foreign investment is considered to have had a modest role in rebuilding the country's economy, moving from the planned economy to the market economy.

Keywords: *FDI, multinational corporations, economic development, RM.*

I. INTRODUCTION

The purpose of this paper is to emphasize the importance of multinational societies as societies extending their activity outside the borders of respective states. At present, such societies really represent a very advanced activity that has to do with the whole network of international relations. The activity of multinational companies is by no means a recent phenomenon. Genesis have in the economies of developed countries.

Multinational corporations are the main actors of contemporary international business in the world. These are the main providers of intensification of economic growth and international trade development. They use a number of methods for international business, such as: international trade, licensing, franchising, joint venture enterprises, the acquisition of existing economic activities and the creation of new affiliates abroad. The main purpose of multinational companies is to maximize the wealth of shareholders and increase the value of society, one of the most effective strategies for achieving these goals is the creation of new affiliates abroad. A subsidiary of a foreign company implies the establishment and the exercise of new economic activities by trading companies in other countries. As such, this method requires larger amounts of investment in order to reach the company's strategic goals in the near future, in the place of establishment of the subsidiary. This process is realized mainly through direct investments, which in other countries are called ***foreign direct investments.***

The treatment of foreign direct investments in correlation with economic development in general and especially within a country is of a multi-dimensional importance. For the Republic of Macedonia, such a linkage between FDI and economic development is of particular importance because FDI is usually listed among the most important factors affecting economic growth, especially those countries that faced deep structural overtures during transition phase transition.

Since the Republic of Macedonia is considered a poor country and still faces transitional reforms, we consider that multinational corporations through foreign direct investment have a crucial effect on economic development and overcoming the current situation in the country. Precisely because of these arguments, the role of foreign direct investment in the economic development of the country is also motivated for the realization of such research.

The research hypotheses of this investigation are::

(H_0) *Foreign direct investment has a positive effect on the economic development of the Republic of Macedonia.*
(H_1) *There are various barriers to FDI so low in the Macedonian economy.*
(H_2) *There are benefits from FDI to improve the current situation in the country.*

II. REVIEW OF LITERATURE

The connection between FDI and economic development has been the subject of many-year debates among various scholars. According to a group of authors [1]; [2]; [3], FDI accelerates the economic growth of the host country, while some other authors [4],[5] consider that FDI has bad effects with regard to the economic development of the countries.

In this context, the main mechanisms through which FDI impact on economic growth are: the transfer of sophisticated technology and service and know-how, training of employees, the creation of new jobs, the increase of productivity and competitiveness, the faster access to the global market, the creation of connection between foreign and domestic firms etc. On the other hand, foreign direct investment is considered to have adverse effects for several reasons: job losses due to sophisticated and contemporary technology, bankruptcy and lack of support from domestic firms, deterioration of the balance of payments, the spread of economic problems around the world (the problems of a branch in a country can be transferred to another branch in another country).

Several earlier studies argue that there is a positive correlation between FDI and economic growth, while some other studies pose a negative correlation between these two issues. However there is a widespread belief among economists and policymakers that FDI generates positive effects on the productivity of host countries. The main channels through which these positive effects are achieved are: the transfer of modern technology, increased productivity and competitiveness, the opening up of new jobs, cooperation between foreign and domestic firms, and so on. These benefits together with direct capital financing predict that FDI can play an important role in modernizing the national economy and fostering economic growth[6].

Some research has pointed out that the impact of FDI on economic growth varies depending on the ability of a country to absorb new technology. The reason is because domestic firms need a certain absorbent capacity before they can take advantage of new technologies brought by foreign firms. At the macro level, the absorption capacity analysis is done by examining the economy, legislation, political stability, human resources, institutional and financial absorbing capacity, balance of payments, and the size of the domestic market for goods produced through foreign investment [7].

Economic reforms in Macedonia have been moving steadily, but some phenomena have negatively impacted the economic growth of the country. These include: corruption, lack of finance and an ambiguous regulatory environment, which also negatively affected the flow of foreign direct investment and at the same time resulted in high levels of unemployment. If we compare foreign direct investments that have been realized in recent years in Macedonia with FDI in the region, we will see that it holds the last place. Reasons for this situation are numerous, but an indisputable fact is that Macedonia is not a suitable place for foreign investors. Vaknin suggests that GDP, inflation rates and interest rates, living standards, available infrastructure, and the banking system are not the first issue to be demanded by foreign investors. Instead, foreign investors should know about property rights, state and court roles, legislation in force, crime rates, people's characteristics, officials and politicians, bureaucracy, ease of doing business, and similar, that will affect the decisions of foreign investors. However, with the recent economic reforms, Macedonia has created the most attractive tax package in Europe. These reforms include the introduction of a 10% flat tax on personal and corporate income, which simplifies the tax system and stimulates successful companies to further improve operations and increase profitability[8]. Despite the need for foreign investment, Macedonia is one of the transition countries that has attracted low levels of foreign investment compared to other transition economies, especially Southeastern Europe which also started from the zero level of FDI in the year 1990 and with almost the same political and economic conditions.

Withdrawal of high FDI inflows into Macedonia has stagnated for years. Only in 2001, the share of foreign investments in Macedonia was over 10% of the country's GDP, so since the privatization process started, the flow rose sharply, reaching a peak of $ 447 million in 2001. Medium inflows FDI net in the Macedonian economy over the period 1999-2010 were about 4% of GDP, which is relatively low compared to some other transition economies [9].

According to the Statistical Bureau and the National Bank of the Republic of Macedonia, the cumulative value of FDI in the Republic of Macedonia at the end of 2002 was equivalent to about USD 106 million. The trend showed steady growth until 2004 reaching $ 323 million. In 2005, a $ 97 million FDI inflow was recorded. The trend returns dramatically in 2006 to $ 225 million, mainly due to the sale of the electricity company. In 2007, FDI inflow rose to $ 699 million, followed by sharp decline in later years.

Based on the data above, we can freely say that foreign direct investments seem to be statistically significant and have a positive impact on the country's economic growth. FDI flows continue to be an important component of private sector development and a condition for the economic development of the Republic of Macedonia.[10]

At a macroeconomic level, FDI affects the key disturbing variables for policymakers: balance of payments, employment, gross domestic investment and international trade. FDI is generally believed to have a positive effect on each of these variables, but there are still theoretical considerations that show counterbalancing effects. However, these effects are often indirect and need to be empirically studied.

III. THEORETICAL ASPECTS OF MULTINATIONAL CORPORATIONS

a. DEFINITION OF MULTINATIONAL CORPORATIONS

There are different definitions in multinational corporations in economic literature. One of the main causes of the diversity of definitions comes from changes in the importance attributed to the characteristics of companies operating in the international arena as well as the reasons why firms are engaged in international business.

In the 70s of the twentieth century, the United Nations defined it as "multinational corporations are all those enterprises that control their assets - factories, mines, affiliates and sales, in two or more countries" .

According to Aheron, the definitions of multinational companies can be made through:

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• Structural criteria and
• Business performance.

From the aspect of the structural criterion, multinational corporations can be seen in a narrow and broad sense. The broad understanding of multinational companies is the form that has developed activities in many countries that use license and franchise as various forms of co-operation, joint investment or direct investment in the outside world. While in the narrow sense, multinational corporations are tied only to the multinational character of ownership or multinational placement character.

The definition of multinational corporations according to the performance relates to the volume of sales, property, capital, number of employees, realized income. There are many companies that export to some foreign markets, but they do not mean they have the treatment of multinational companies. Income and wealth represent the criteria by which corporations can rank in the multinational corporation family.

Multinational corporations have a global strategy in production, investment, research and distribution. In their potential there are reserves of knowledge, science, and innovations. Multinational corporations have the whole motive of successful business, expansion across territories and multiple markets in profit. In their politics there is no dominance of patriotism, or nationalisms that have to do with profitable interests outside profit. Thomas Jefferson said: "Traders do not have their own homeland. Wherever they are, they are not connected to the ground. They only care about the source of profit. "

In a sublimate way, we can say that a multinational corporation represents a large size enterprise with headquarters in the country of origin and spread across many parts of the world through its affiliates and operating and controlling against a claimed profit or in the national market, or in a defined geographical area, or around the world.

b. TRAINING METHODS FOR FOREIGN TRADE

We can mention some of the most popular methods:

1. **International trade** - is an early and traditional method used by societies to intervene in the markets of other countries through exports as well as to provide low-cost raw materials through imports. In this method, the company operates at a low risk, as it does not use its capital but simply follows the performance of exports and imports by reacting towards lowering or termination of certain exports or imports and increasing this activity in other countries.
2. **Licensing –** is a method by which the company grants the (technology) right to license, sell or sell a company in another country in exchange for payments or other forms of profit. The license may be for different rights such as advertising rights, sales, patents, trademarks, authors, trading emirs, etc.
3. **Francis** – is a business method whereby a society through a common plan (defined by bilateral agreement) with foreign companies and accompanied by technical assistance or an initial investment enables the latter to extend their activity without investing gave me.
4. **Joint venture**- are created by the joint venture of two or more companies. This business method, in addition to the ability to raise capital, has the advantage of gaining new experience, high technology, more effective management of the established enterprise and the reputation that society or foreign companies can have.
5. **Acquisition of existing economic activities** – this method consists of buying from foreign companies of the economic activity of local companies. This gives the opportunity to increase the operating markets and widen the range of different products or services. In some cases, this purchase may be incomplete and thus exposes the foreign company to a lesser risk to a particular country.
6. **Creating new branches abroad** – this method consists in the investments of foreign companies to create new branches in other countries in order to produce and sell their products. The branch of a foreign company implies the establishment and the exercise of new economic activities by commercial companies in other countries. As such, this approach requires large amounts of investment so that in the near future, society can achieve its strategic goals in the country of establishment[11].
7.

c. STRATEGIC MOTIONS FOR PENALTIES IN FOREIGN TRADE

There are several strategic motives for a society to become multilateral:

- Market research as one of the main conditions for the existence of multinational companies is related to the lack of market perfection
- Raw Materials Research
- Efficient product searches
- Search for security

Keeping and transferring competitive advantages is an important basis for multinational companies' action. Competitive advantage may be related to firm's strengths, the level of transferability, and the power to compete with firms that have potential barriers to operating abroad. It stipulates that a multinational corporation has one or several of the following elements that give local competencies to exploit market opportunities.

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The supremacy of a multinational society comes from the existence of several factors among which we can mention:

- Economy of the scale
- The superiority of marketing direction
- Technological advantage
- Financial strength

In maintaining competitive advantages, a primary role is the internal market in which the level of competition can increase the advantage of operating abroad. The latter may refer to the four factors of national priorities:

a) Validity of production factors
b) The terms of the request; consumer demands increase marketing and quality control tools
c) Supporting industries.

d. WHO AND HOW INVESTMENTS MULTIPLE SOCIETIES

Theoretically, a multinational corporation will seek the best place in the world to take advantage of its inexperienced markets and take advantage of its competitive advantages. There are two theoretical interpretations regarding the choice of where to invest a multinational corporation:

- The first interpretation relates to the behavioral theory according to which a multinational corporation attempts to invest firstly in countries that are not far away in psychological aspects, which implies cultural, legal and institutional environments.
- The second interpretation is based on the concept of the international network: every corporation is considered as a member of the international network that has a connecting branch with the subordinate subsidiary being in competition with other societies and influencing strategic decisions and reinvestment.

So, the basics of internationalization of a multinational society can be summarized as follows:

- Multinational society provides lower costs for the production of new products
- Reducing uncertainty and costs associated with market transactions and protecting product-related advantages (technology, brand, craft etc.)
- The means of creating or favoring monopolistic advantages
- Multinational society achieves economies of scale in production and research.

IV. DATA AND METHODOLOGY

4.1 DATA AND METHOD OF EXPLANATION OF LITERATURE

The hypothesis put forward will be tested on the World Bank data on FDI inflows in the economy growth rate of RM, export and employment during the period 2002-2011. To accomplish the objectives of this research project is undertaken reviewing a wide literature to explain in detail the FDIs and their main characteristics. Meanwhile, the secondary data collected have helped to understand and understand key issues and key elements related to FDI and their impact on the development of the domestic economy. The purpose of this paper is to elaborate the relationship between such indicators as:* IHD, GDP, EX and PU. For Macedonia, FDI flows depend heavily on the completion of the process privatization, therefore privatization has been an important variable to be considered for these countries.

Table no.1 **Ten year data for reviewed variables**

Year	GDP	FDI	EX	PU
2002	3791306757.66	105574579.42	1112146132.41	561341
2003	4756221628.61	117759613.23	1362654779.80	545108
2004	5514253043.38	323027158.54	1674852220.20	522995
2005	5985809059.97	145329601.53	2040579354.70	545253
2006	6560546900.04	427444589.27	2410722210.91	570404
2007	8159825620.39	733466879.00	3391492598.55	590234
2008	9834038366.89	611688378.61	3983278354.30	609015
2009	9313573964.98	259530321.49	2702264512.05	629901
2010	9137543772.87	300734840.71	3345040889.66	637855

2011	10165373218.11	495098343.61	4428853866.23	645085

Source: World Bank

4.2 RESEARCH METHODOLOGY

The correlation between FDI and economic growth is tested in three different ways in order to achieve deeper results:

- Relationship between FDI and the rate of economic growth
- Relationship between FDI and export
- Relationship between FDI and employment.

In the present case, in the analysis we have a partial correlation between FDI and GDP assuming constant variables. In our research, the model of partial correlation takes the form of the following:

$$\ln(\mathrm{GDP}) = \beta_0 + \beta_1 ln(\mathrm{IHD}) + \mu$$

Where: GDP is the dependent variable, FDI is the independent variable, β_0 is the intersept parameter, β_1 is the slope parameter, and μ represents the error term that includes all other factors that may affect the dependent variables that are not included on the model.

```
      Source |       SS           df       MS      Number of obs   =        10
-------------+----------------------------------   F(1, 8)         =     11.31
       Model |  .609987081         1  .609987081   Prob > F        =    0.0099
    Residual |  .431634096         8  .053954262   R-squared       =    0.5856
-------------+----------------------------------   Adj R-squared   =    0.5338
       Total |  1.04162118         9  .115735686   Root MSE        =    .23228

------------------------------------------------------------------------------
       lngdp |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       lnihd |   .3815337   .1134712     3.36   0.010     .1198688    .6431987
       _cons |   15.22966   2.212564     6.88   0.000     10.12748    20.33185
------------------------------------------------------------------------------
```

Results derived from regression between GDP and FDI variables show a R ^ 2 (determination coefficient) of 0.5856. this means that close to 59% of GDP change is caused by the change in the independent FDI variable. This means that FDI fluctuation is a good determinant of GDP.

F- the value is 11.31 which is greater than the critical value F which is 3.14 and we can confirm that there is an important relationship between the dependent variables of GDP and the independent variable of FDI.

The estimated FDI ratio is positive, indicating that there is a positive relationship between FDI and GDP. This means that when FDI grows simultaneously we will also have GDP growth. So in the concrete case if FDI will increase by 1%, GDP will increase by about 0.39%. Results are statistically significant and consistent with economic theory.

Similarly, there are similarities between FDI, export and employment in the RM. This part of the analysis aims to assess FDI effects on exports and to answer the question of whether FDI has stimulated exports. Although the accumulated FDI in Macedonia is lower compared to other transition economies, export developments point out that FDI has made a significant contribution to export promotion. It will also analyze the effects of FDI on employment, assuming that foreign investment will have a positive effect on job creation.

Table no. 2 Results from regression between EX and FDI variables as well as PU and FDI.

Variables	Coefficients	Standart Error	t-statistic	p-values
Export	0.5698254	0.1318397	4.32	0.003
Employment	0.0519397	0.0335453	2.55	0.001

Source: Authors' calculations

The export-assessed coefficient is positive, indicating that there is a positive relationship between expo and FDI. This means that when FDI grows simultaneously, we will also have an increase in exports. So in the concrete case if FDI will increase by 1%, export will increase by about 0.57%.

The estimated coefficient for employment is positive, indicating that there is a positive relationship between employment and FDI. This means that as FDI increases, we will also have an increase in employment. So, in the concrete case, if FDI will increase by 1%, GDP will increase by about 0.051%.

V. CONCLUSIONS AND RECOMMENDATIONS

Following are the main conclusions of the research, listed below:

- ✓ Foreign direct investment has a modest positive impact on the economic development of the Republic of Macedonia for the period 2002-2011;
- ✓ Average FDI inflows in the Macedonian economy are relatively low compared to some other transition economies;
- ✓ FDI is a very important factor for GDP growth, export promotion to Macedonia's economy, reduction of unemployment rate and improvement of the country's macroeconomic performance.

Before we submit the recommendations, we should first examine what are the reasons for such a low presence of IHD in Macedonia. In this context, among the most important reasons we can count:

- The stagnation in realizing the structural reforms of the economy
- Failure to implement reforms in the legislative sector
- Failure to function properly and the inadequacy of the judiciary
- The presence of organized crime and corruption
- Insecurity and unstable political situation,
- Not providing business climate in the country, etc.,[12].

Consequently, based on the research and the conclusions, we suggest adequate recommendations for country policy makers:

- ✓ It should focus on attracting more foreign investment across the various sectors, which will contribute to alleviating unemployment as one of the worst problems facing the country's economy.
- ✓ Cooperation between domestic and foreign companies should be promoted to improve the economic and social well-being of the population.
- ✓ Main sectors of interest should be identified which have the highest potential to contribute to economic growth, while FDI should be channeled and integrated according to the country's economic flows.

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AUTHORS

Seadin Xhaferi, Professor of Finance, State University of Tetovo, seadin.financa@gmail.com
Jadranka Mrsik, Profesor of Finance, University American College Skopje, jadranka.mrsik@uacs.edu.mk