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STIMULATING THE COMPETITIVENESS OF THE MACEDONIAN ECONOMY THROUGH THE PROCESS OF STIMULATION THE INTERNATIONALIZATION OF THE COMPANIES

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Abstract

The research in this paper is to be focused on examining the internationalization of the Macedonian companies as a prerequisite in improvement of Macedonian competitiveness. Internationalization as a process of integration in international economic activities contributes to overcome the sizes of national markets. According to the World Economic Forum (WEF) the size of the market is one of the pillars of competitiveness and it is revealed as one of the limitation of the competitiveness of Macedonian economy. The contemporary theories of competitiveness recognize the necessity of quantitative and qualitative improvement of the process of internationalization of the companies. Quantitative improvement means involving not only trade but also outward FDI and the new quality signifies the necessity of restructuring the economic activities towards employing and creating innovation based processes, as (Porter, 1990)accents that a nation's competitiveness depends on the capacity of its industry to innovate and upgrade. Using data of some target Central European and Baltic (CEB) economies, it will be examined interrelationships between the internationalization and competitiveness and policies that influence the improvement and stimulation of internationalization process.

Keywords: Competitiveness, Internationalization, Export, Outward FDI

1. Introduction

The internationalization process is important as an enabler of national competitiveness and as a strategic option for business. As a process of integration in international activities internationalization enables the companies to expand their operating activities across the border of their national markets on the one hand and on the other, it determines and influences the market size of an economy as one of the determinant of the competitiveness of economies. Internationalization is beneficial from a macroeconomic and a microeconomic perspective. In other words, it is beneficial for the national economies and individual firms as well.

Firms often decide to build new markets by offering their products outside national boundaries and may enter through the modes of exporting, joint ventures and alliances, licensing or foreign direct investment (Johnson *et al.* 2007). By expanding its markets internationally a firm can bypass limitations in its home market (Johnson *et al.* 2005). Internationalization through the exports and foreign direct investment can be thought as a substitute for domestic demand in determining the size of the market. But as Porter emphasized a new theory must recognize that in modern international competition, companies compete with global strategies involving not only trade but also foreign investment (Porter, 1990). That means the success in international trade is determined by employment of both, export and direct investment, as two parallel strategies.

In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries. The interdependency between internationalization and competitiveness of today contemporary economies is verified in practice where the internationalization is treated as one of the determinant and enabler of the market size as one of the pillars of competitiveness according to the World Economic Forum (WEF). The market size is proportionally dependent on the level of internationalization of the economy.

Based on the necessity to stimulate and encourage the internationalization of Macedonian companies, this paper aims to study the actual involvement of Macedonian economy in the process of internationalization through the export and OFDI performance and to offer some measures and activities in enhancing the internationalization.

2. Interdependency between Internationalization and Competitiveness

Globalization process contributes the companies to be exposed to new economic environment, so the internationalization becomes a crucial and essential part of success in today's international economy. At the same time internationalization is one of the key engines for competitiveness, but on the other hand the competitiveness is one of the key enabler of internationalization.

In order to be successful in international market the companies should create and upgrade competitiveness at home. Businesses that focus primarily or even exclusively on the domestic market have to be competitive internationally in order to secure long – term survival and growth (Karagozodlou and Lindell, 1998). Although the competitiveness is a central concern in today' economies, on national and international level, there is still no agreed definition upon it. Some of them use single measures like: firm ability, productivity, standard of living, trade performance, price and non-price based criteria, others take a multidimensional approach. But as Porter states "the competitive advantages must reflect a rich conception that includes segmented markets, differentiated products, technology differences and economies of scale […] based on quality, features and new product innovation" (Porter, 1990, p.162). Survival in today's more competitive and dynamic environment is connected with the continual renewal of competitive advantage through innovation and the development of new capabilities (Cho and Pucik, 2005). When the national environment pressures companies to innovate and invest, companies both gain a competitive advantage and upgrade those advantages over time (Porter, 1990). Existence of a national environment that supports and encourages the creation and upgrading of competitive advantages is a precondition for efficient internationalization. Particularly, innovation represents a source of competitive advantage that positively affects firms' internationalization (Kylaheiko *et al.* 2011). The need of competitiveness is associated with a higher commitment to innovation (Hitt *et al.* 2007). The ability to create and sustain innovation and sophistication based competitiveness is a condition that lead to internationalization.

On the other side internationalization can contribute to acquire new technological knowledge that may increase firm innovation reflecting positively to national competitiveness. Internationalization, through the access to other markets, provides opportunities to reduce costs associated with development of new products and services. Foreign affiliates and domestic exporters were more likely to invest in innovation and furthermore that they were more likely to be more successful in terms of innovation output and higher productivity than firms that served only the domestic market (Siedschlag *et al.* 2010). Engaging in international activities could also have more positive impact on the competitiveness offering opportunities for acquiring new knowledge not available in the home market that may increase firm innovation. Once the companies develop activities abroad, acquire knowledge about foreign markets and competitors and can become more competitive themselves (Golovko and Valentini, 2011). This is useful for engaging in further innovative activities through investments in technology, since constant innovations is required to sustain competitiveness (Zhang *et al.* 2010).

The access to new and larger markets as one of the main reasons for internationalization, leads to wider market size of a national economy. Market size enhances growth by raising the intensity of product market competition (Aghion *et al.* 2002), it has a pro-competitive effects. The size of the market affects productivity since large markets allow firms to exploit economies of scale (World Economic Forum, 2010). Globalization of international economy cause international markets to become substitute for domestic markets. So, trade openness is positively associated with growth. The general sense is that trade has a positive effect on growth, especially for countries with small domestic markets (Sachs and Warner, 1995). By including market size as one of the pillars in the set of 12 pillars of competitiveness, World Economic Forum emphasizes the positive role of internationalization to competitiveness creation.

3. Internationalization Patterns of Macedonia

The Republic of Macedonian is a small, open economy for which involvement in international relations through the process of internationalization should represent a major source of growth and development. The internationalization performance of a country depends on its competitiveness and competitiveness is directly associated with the internationalization performance of the country. Within the Global competitiveness report (GCR) on the scale from 1 to 7 Macedonia advanced from 3.87 points in the 2008-2009 assessment to 4.1 points according to the 2013-2014 assessment. Although it means the improvement of the general level of competitiveness of the Macedonian economy, the low intensity of this improvement has not contributed to higher dynamism and growth of the economy.

We examine the impact of countries' internationalization on competitiveness using OLS model (Hayashi, 2000):

$$y_i = \alpha + \beta_1 x_1 + \beta_2 x_2 + \varepsilon_i \tag{1}$$

Thus applied to our research has the following shape:

$$COMP_i = \alpha + \beta_1 EXP + \beta_2 OFDI + \varepsilon_i \tag{2}$$

- $COMP_i$ is dependent variable,
- EXP and $OFDI$ are independent variable
- α is a intercept coefficient
- ε_i is the error term

According to the regression model where we have estimated the coefficient of correlation R square equals to 0.515 shows that only 51% of the variation of GCI is explained by internationalization process. The analysis in Table 1 reveals that Macedonian economy lags in the correlation between internationalization and competitiveness against to some former economies in transition from Central Europe and Baltic (CEB) that reached correlation index higher than 0.8.

Table 1. Comparison of Correlation Index of Internationalization and Competitiveness

Regression Statistics				
	Macedonia	**Slovenia**	**Estonia**	**Poland**
Multiple R	0.717794479	0.891941	0.908933	0.880528
R Square	0.515228915	0.795559	0.826159	0.77533
Adjusted R Square	0.272843372	0.693339	0.739238	0.662995
Standard error	0.100587599	0.055219	0.040178	0.055219
Observations	7	7	7	7

According to Table 2 we obtain the regression line $COMP = 3.607 - 0.002EXP + 0.434OFDI$shows positive correlations between OFDI and competitiveness while we find negative correlations between export and competitiveness. The negative correlation with export can be explained with the lack of dynamism in export performance of Macedonian economy caused as a result of lack of transition in structure of Macedonian production during the whole period of transition.

Table 2. OLS Analysis of Internationalization and Competitiveness of the Macedonian Economy

	Coefficient	Standard error	T Stat	P-value	Lower 95%	Upper 95%
Intercept	3.607713	0.370321	9.742109	0.000621	2.579535	4.635890
OFDI	0.434631	0.211296	2.056972	0.008825	-0.15202	1.021285
Export	-0.002019	0.008400	-0.240339	0.009188	-0.02534	0.021305

4. Export Performance

Exporting is the initial step in the internationalization process. Macedonian economy is essentially oriented towards international trade. Trade openness as an indicator of trade involvement, indicates increasing and positive trend reaching the highest level of 110.5% of the gross domestic product (GDP) in 2008. Except the crisis year 2009, export start increasing and showing positive trend from 2010 reaching the level of 110% of GDP. Compared with the former transition economies of Central Europe and Baltics (CEB), the Macedonian economy significantly lags in trade openness (Table 3). In CEB economies the trade openness amounts to an average of 135.6% of GDP. In some economies, such as in Slovakia it reached 176.2% of GDP, in Hungary 158.3%, in Czech Republic 152%, in Estonia 151.3%.

Table 3. Trade in Goods between Macedonia and the Rest of World (1999-2013)

Years	Export	Import	Trade Openness	Trade Deficit
1999	32.4	48.3	80.7	15.9
2000	36.8	58.3	95	21.5
2001	33.6	49.2	82.9	15.6
2002	29.4	52.6	82	23.2
2003	28.7	48.4	77	19.7
2004	30.3	53.1	83.5	22.7
2005	34.1	53.9	88.1	19.9
2006	36.8	57.1	94	20.3
2007	41.6	64.7	106	23.0
2008	40.5	70	110.5	29.4
2009	29	54.4	83	25.3
2010	35.8	58.5	94.4	22.7
2011	43	67.6	110	24.5
2012	41.6	67.7	109	26.0
2013	41.8	64.6	106.5	22.8

Source: National Bank of the Republic of Macedonia (NBRM)

During the analyzed period export and import have gradually increased. The value of export increased by 29% whiles the value of import by 33.7%. Such movements had negative effect resulted on increasing the trade deficit which in 2012 reached 26% of GDP. Although the export shows increasing trend it misses more dynamic quality which will lead to higher growth of Macedonian economy. The main reasons that limit the growth of Macedonian export are: the unfavorable structure of Macedonian export and the low level of investments domestic and foreign

Based on the economic purpose (Table 4), export in 2013 exposes increasing in all components, with the exception on energy.

Table 4. Structure of the Macedonian Export based on Economic Purpose (%)

Economic Purpose	2011	2012	2013
Industry	52.8	51.5	53.1
Household consumption	32.7	33.98	34.2
Investment	6.0	8.3	10.31
Energy	8.3	6.1	2.2

Source: National Bank of the Republic of Macedonia (NBRM)

Although the data shows positive trend in export of all groups, the structure of export according to the level of manufacturing and added value is unfavorable (Table 5). In export structure dominate primary goods with low level of added value. The highest deficit is caused by the overflow import of higher level manufactured industrial goods, food and beverages, investments goods and motor vehicles. While the export overflow import in primary goods.

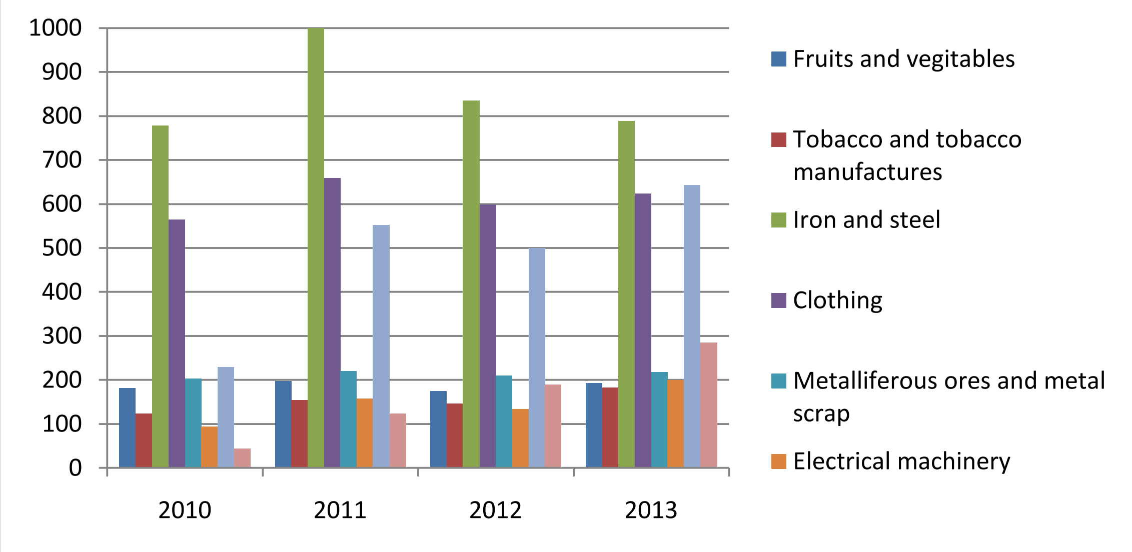
Table 5. Structure of the Export based on Level of Manufacturing (Million USD)

Manufacturing Level	Export	Import	Balance
Food and beverages (primaries)	150.2	125.8	24.4
Food and beverages (manufactured)	313.64	626.4	-312.7
Industrials (primary)	429.57	206.74	222.83
Industrials (manufactured)	1,800.60	2,759.03	-958.43
Investments goods	440.30	849	-409
Motor vehicles	1.36	136.64	-134
Consumer goods	941.4	669.1	272.3

Source: National Bank of the Republic of Macedonia (NBRM)

According to the Standard International Trade Classification (SITC), the structure of exports has shown a high degree of concentration of several product groups in which dominate iron and steel, clothes, unprocessed fresh fruit and vegetables, tobacco and cigarettes (Figure 1). The exports are concentrated in products with low added value, unprocessed raw materials or intermediate products that can not cause acceleration of exports. Deficiency of greater product diversification, made the exports sensitive to instability of market demand and commodity prices. The low value-added export is manifested also in the absence of high-tech products in the export structure. Although their participation is increasing in recent years from 0.7% in 2007 to 2.9% in 2012, it still lags far compared to former economies in transition: Hungary 17.3%, the Czech Republic 16.2%, Estonia 14.1% Slovakia 8.2%, Croatia 7.4%, and Slovenia 5.2% (http://ec.europa.eu/eurostat/data/database). Due to the entry of FDI, in the last few years, in the export structure emerges products from chemical industry, electrical and industrial machinery.

Figure 1. The Goods with Greatest Share in Macedonia's Export (Million USD)



Source: National Bank of the Republic of Macedonia (NBRM)

The crucial factor for uncompetitive export structure is low level of quantity and quality of domestic and foreign investment in Macedonian economy during the whole period of transition. Scarcity of domestic and foreign investment limits the quantitative and qualitative improvement of production structure. The low level of investment in the Macedonian economy was not able to create preconditions for "transition of the production". Although statistics show an increase in domestic investment in the country reached 28.6% of GDP in 2012, the business community as major weaknesses that constrain production have stressed: the lack of quality infrastructure, lack of equipment, availability of cheap energy and a lack of skilled labor.

The second part of investments that shows very poor results in quantity and quality is the inflow of FDI in Macedonian economy. Until the 1998 the level of FDI inflow in the economy was averagely moving to 20 million USD amounted to less than10 million USD in some years. Since 1998, the inflow of FDI showed variable trends reaching the highest inflow of 699 million USD in 2007. According to UNCTAD low level of FDI inflows in the country was due to the weak FDI potentials of the economy. Numerous weaknesses were identified in many international reports as: inefficiency and lack of transparency of institutions, lack of a transparent legal framework and high level of corruption, lack of strong competition between domestic and foreign entities, lack of proactive system of activities, policies and measures to stimulate the inflow of FDI. In terms of the quality it prevails FDI in activities with low added value, without higher level of knowledge and skills and which production varies according to the changes of price in the world market. These features of FDI have not led to restructuring, diversification and technological improvement of export production.

In recent years within the Technological Industrial Development Zones (TIDZ) it is established so-called "green field" investments in manufacturing parts for the automotive industry that cause inclusion of goods with higher level of manufacturing and added value in export structure. But the effects of these investments would be higher if their production involving more local producers as suppliers of products and services in the production chain.

Except the production structure, a significant constraining factor of Macedonian export are so called non-tariff barriers like sophisticated and rigorous technical, sanitary, photo-sanitary standards and requirements.

5. Internationalization through Outward FDI

The main strategy of economic growth of Macedonian economy is focused on attracting FDI. But as modern theories of competitive advantages suggest the integral part of growth and improvement of nation's productivity is putting into practice exports of goods and services and export of capital in the form of FDI outflow as a parallel approach to foreign market. Global FDI outflows in 2013 rose by 5% to 1.41 trillion USD, up from 1.35 trillion USD in 2012. Outward FDI from developing and transition economies shows continual expansion abroad. In 2013 these economies accounted for 39 % of world outflows, 15 years earlier their share was only 7%. The Table 6 shows a positive correlation of OFDI with the competitiveness although Macedonian economy manifested great lag in exports of investment abroad compared to the former transition countries from CEB. Outward FDI are one of the primary factors in the development of the former transition economies which greatly contributed to the restructuring and development of both large and SMEs.

Table 6. Outward FDI in Macedonia and CEB Economies (Million USD)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Macedonia	39	42	54	62	38	67	85	95	99	122	95
Slovenia	1.505	2.350	3.025	3.300	4.547	8.032	8.841	9.055	8.175	7.802	7.796
Estonia	677	1.030	1.417	1.933	3.598	6.172	6.630	6.632	5.775	4.740	5.791
Poland	1.456	2.144	3.351	6.308	14.392	21.317	24.094	29.307	44.444	49.657	57.525
Hungary	9.001	12.337	13.791	13.602	22.418	31.650	17.592	19.736	20.489	24.048	34.741
Czech Republic	1.473	2.284	3.760	3.610	5.017	8.557	12.531	14.805	14.923	13.214	15.176
Slovakia	758	1.144	1.084	747	1.520	2.081	2.940	3.152	3.334	4.210	4.413
Latvia	59	115	238	282	476	926	1.054	891	886	864	1.104
Lithuania	60	120	423	721	1.041	1.570	1.990	2.300	2.086	2.079	2.521

Source: National Bank of the Republic of Macedonia (NBRM) and UNCTADstat

Foreign investors receive a lot of fiscal, financial and regulatory incentives in Macedonian economy, while domestic investors are not covered with any measure that will support their investment abroad. There are small number of Macedonian companies that have invested abroad as a result of lack of financial capacities to invest and develop new products and processes, lack of differentiation strategies, lack of managerial knowledge and international experience about the foreign markets. Outflow of FDI in Macedonia relies on pharmaceutical sector, food industry, construction sector and few companies in higher technology. Although the quantity of Macedonian OFDI is modest and insignificantly, according to Table 2 they have a positive impact on competitiveness because they are driven by ownership advantages or firm specific competitive strengths and location factors. Some of domestic investors look investment abroad as a way to overcome many technical obstacles like certification in EU, so by investing in some EU member country they obtain origin of products from the EU. Market-seeking and strengthening position in EU market is becoming main goals of investments abroad for the pharmaceutical industry. The key determinants of outward FDI in higher technology relate to ownership specific advantages like innovation, the quality of products, knowledge about foreign markets, personal contacts, international experience, skilled personnel and management.

The process of growing liberalization and global competition will pressure Macedonian firms to internationalize through outward FDI to improve their competitiveness. According to UNCTAD small economies invest relatively more abroad on the base of their ownership advantages and small size of their home markets which drive them to expand abroad.

Slovenia is a positive example of internationalization through outward FDI. Although Slovenia has early experience of outward FDI within the former Yugoslavia, it is approved as one of the main factors in improving competitiveness and the size of market. Slovenian enterprises realized that without internationalization, they would not be able to maintain their competitive positions (Jaklic and Svetlicic, 2003). The small domestic market and relatively high labor costs in Slovenia are key drivers of outward FDI. Maintaining and expanding foreign market shares and need to operate close to customers has encouraged outward FDI. Although Slovenian outward FDI is concentrated in the former Yugoslavia, far destinations like China and Brazil have been rising as locations for Slovenian outward FDI. Their outward FDI motives included gaining new customers overseas, e.g. through a focus on key foreign market niches, and cost reduction. Investments abroad allow even reduce the negative effects of the crisis by expanding their share of foreign markets, close to the customers, by constantly innovating and introducing new products and further expansion into new markets (Jaklic, 2011). Good management was considered a very important source of competitive advantages together with the quality of products and services provided by these firms (Ruzzier, 2005). The Polish economy exercise remarkable increase in the quantity of OFDI from 1.456 million USD in 2002 to 57.525 million USD in 2012. The success of foreign expansion by Polish companies enables firms to benefit from firm specific advantages in different foreign location and on macroeconomic level, is of vital importance to the development of the home economy (Gorynia *et al.* 2014).

6. Enhancing Internationalization of Macedonian Economy

During the whole period of transition Macedonian economy was focused on the promotion of exports and inward FDI as the main tools for economic growth, but it is recognized that the economy has not succeeded in achievement extraordinary economic progress. Quantitative and qualitative improvement of the process of internationalization is a crucial element for enhancing competitiveness and growth of the Macedonian economy.

Quantitative improvement refers to increasing of export and involvement of outward FDI as two important parallel drivers of the process of internationalization. Although exports and outward direct investment have often been characterized as alternative strategies, recent economic research suggests that outward direct investment is a complementary of export causing benefits to the home country. The expansion of process of internationalization by including OFDI as a parallel mode is associated with the ability of the companies to overcome own limitations and proactive role of the government to promote support measures. In Macedonia a small number of domestic investors are considering investing abroad. The lack of experience, the capacity to manage risk, the lack of cross - cultural management knowledge required for expanding business outside are emerging as general weaknesses. Although there is no common experience with the process of internationalization in CEB countries, the existence of realistic internationalization strategy, management with excellent training, adapted technology and their own R&D efforts have proved to be the key success factors in most cases.

Internationalization still has a relatively low priority in Macedonian firms' general strategies, but global competition will increase pressure to internationalize through outward FDI to improve their competitiveness. The main preconditions in achieving successful internationalization are investment in creation and absorption superior marketing, production, technology and management skills and to upgrade their capability through technology advancement and product differentiation. A number of case studies have shown that the management of companies have played a crucial role in outward FDI decision (Jaklic and Svetlicic, 2003).

The evidence suggests that except the bilateral agreement on the elimination of double taxation, the lack of government support is obviously. But whether the instruments such as subsidies, loans and insurance should enhance the firm–specific advantages of firms in the short run or whether they should rather focus on long term development of the overall country competitiveness (Gorynia *et al.* 2013). Gorynia *et al.* (2003) argues that in the context of a transition economy's internationalization, the effectiveness of direct support measures for exporters and outward investors might be questionable if the fundamental conditions of the home economy's competitiveness, including the reduction of transition costs or creation of a high-quality labor market are not satisfied. Economic policy should seek to stimulate both competitiveness of domestic firms in foreign markets and their competitiveness in the open home market where they also face foreign rivals (Gorynia, 1998).

Qualitative improvement of process of internationalization is connected with overcoming the structural competitiveness problems. The nature of the competitive advantages of the Macedonian economy which is based on the low-cost resources, shortage of unique and sophisticated products and processes and low level of added value is reflected negatively on enhancing the export competitiveness. That means that serious structural changes are required in order to gain competitiveness and remain competitive at national and international level. Key factors in achieving necessary structural transformation are domestic private investment and foreign direct investment which depend on the national and international business environment. Engagement in international markets requires creating capacities to innovate and differentiate management skills and availability of high skilled and trained human resources.

Improving internationalization should be integral part of the policies for competitiveness and growth. Internationalization is becoming to be merged with the other policies, particularly innovation policy as a way to enhance sustainable long term competitiveness (European Commission, 2007). So the innovation policies together with the education and technology policies should empowered competitiveness and growth of the economy. Important part of the process of internationalization is standardization. It is identified as one of the main obstacles of Macedonian companies in their internationalization but at the same time it is a key element that enables access to market abroad and involvement in the global value chains.

Since internationalization is about enhanced competitiveness (European Commission, 2007), the economy should focus on the set of programs to support internationalization. They should cover the process from the same beginning, giving consultancy and informative support, providing financial support, access to information, network etc.

7. Conclusions

This paper examines the influence of the process of internationalization through export and outward FDI on the competitiveness of Macedonian economies. The results have shown that the actual process of internationalization has an intermediate impact on the competitiveness of Macedonian economy, compared to some CEB countries that indicate high level of correlation of their competitiveness and the process of internationalization.

With 51% dependency of competitiveness on internationalization we can realize that the level of internationalization of Macedonian economy is not corresponded with the abroad oriented strategy of development characterized for an open small economy.

Due to the analysis we find out the positive pressure of outward FDI on the competitiveness, against their low quantitative level. It also suggests that actual condition of export activities does not contribute to higher level of competitiveness of economy as a result of structural weaknesses of domestic production.

So increasing the competitiveness of Macedonian economy is function of measures, activities and policies that will enhance and promote the export and the outward FDI as the drivers of process of internationalization. Indeed, improvement of this process should be a combination of investment, measures and activities which enables the companies to create capacities and advantages as a way of empowering with differentiation capabilities on the market on the one hand and on the other policies that empower companies to diminish barriers to internationalization.

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