

Addendum 8a

**Seminar on the Promotion of
Foreign Direct Investment to
Southeastern Europe**

Macedonia

8 November 2002, Tokyo, JIIA

**Ministry of Foreign Affairs of Japan
The Japan Institute of International Affairs**

An outline of the presentation “Business potentials of the Republic of Macedonia”

1. Geography & People

- Total area: 25,713 sq. km
- Land locked mountainous territory with deep valleys & basins, 3 large natural lakes, river Vardar bisects the country
- Population: 2.1 million

2. Priority Economic Goals of the Republic of Macedonia

- Economic growth and development, Alleviating poverty, Maintenance of macroeconomic stability, Reduction of unemployment, Accelerating reforms in all segments of economy

3. GDP and Inflation 1992-2000, Stable Macroeconomic Framework

GDP - Continuous growth,
Inflation, Exchange rate - Stable foreign exchange rate, Gross reserves

4. Basic Macroeconomic Indicators Projection for 2001

Annual rate of inflation 2.2%
Annual rate of GDP growth 6.0%; Exchange rate of the Denar linked to the EURO

5. Customs Duties and Taxes

The customs duties generally range between 0% and 25%; (Average rate – 14,24%)

Categories of taxes, the most important being:

- Corporate income tax, personal income tax
- Property tax rate, VAT (5% for specific products); VAT is implemented from April 2000

6. Foreign Trade Policy and Trade Regime

High level of liberalization
98% of goods are freely exchanged
The average custom duty 14,24%
Current account transactions are liberalized;

- **Biggest Trading Partners in 2000 (in mill. U.S. dollars) -**

- **Macedonia-Japan Export-Import 2002, I-VII**

Free Trade Agreements:

- Slovenia, Croatia, FR Yugoslavia, Turkey, Bulgaria, Ukraine, Countries - Members of EFTA (not yet in force) Albania, Bosnia & Herzegovina
- Under negotiation: Romania

7. Privatization, FDI Through Privatization, Top Ten Investors, Sectors With Investment Potentials; Sectors with export potentials

- Production of wine
- Food processing industry
- Metallurgy
- Textile Industry
- Fur and Leather processing industry
- Tobacco processing industry
- Tourism

Wine Growing Sector

15 modern wine cellars, Annual production of grapes, wine, brandy; Most important export markets: Germany, UK, Sweden, Japan, Canada, USA, France etc.

Food Processing Industry

Capacities for annual production of:

- 25,000 tons of processed fruits
- 30,000 tons of processed vegetables
- 15,000 tons of confectionery products

Metallurgy

- Ferrous metallurgy participates with 7% in the GDP of the country
- Non-ferrous metallurgy participates with 3% in the GDP
- Big capacities for production of flat rolled products of iron or non-alloy cold-rolled steel, plated or coated products; aluminum bars, rods and profiles; refined copper and copper alloys; unwrought refined lead; zinc dust, powders and flakes, bars, rods, profiles and wire, plates, sheets, strip and foil, etc.

Textile Industry

- Participates with approximately 20% within the country's GDP
- 8.84% of the total number of companies in the economy
- 27% share in the employment
- Capacities for production of cotton, yarns and threads, synthetic fibers, woolen fabrics, clothing garments etc.
- 425 new smaller/bigger textile capacities in the last 3 years

Fur and Leather Processing Industry

Capacities for annual production of:

- 3,500,000 m² of hide and leather
- 1,300,000 m² of fur
- 5,000 tones of rubber products
- year 2000 - annual production of 531,000 m² of hide; 328,000 of fur; 1,600,000 pair of shoes

Tobacco Processing Industry

- Three tobacco factories
- Annual production of 30,000 tons tobacco
- Capacities for annual production of 20,000 tons cigarettes
- year 2000 - annual production of 28,635 tons of fermented tobacco and 8,882 tons of cigarettes

8. Agriculture, Transportation, Telecommunication**9. SME Development**

10. Free Economic Zone - “Bunardzik”

- During July 1999, an Urban plan for “Bunardzik” was adopted
- The zone is 10 km east of Skopje, on the left side of the highway Skopje-Kumanovo (E75) and 3km distanced from the “Petrovec” Airport
- The location covers total 158.93 ha (139.28 ha - free zone and 19.65 ha - dwelling zone)
- For one part of this free zone (30 ha) an Agreement between the Republic of Macedonia and the Republic of China has already been signed and the legal procedure for its establishing is on its way

Law On Free Economic Zones

Complete tax exemption if:

- 51% of the production is exported in the first year
- 62% in the second year of the operating process
- 70% in the following years of operating
- Profit tax and property tax for a period of 10 years from the day of commencement of activities in the free zone

11. Hospitable FDI Environment

Main advantages:

Maintained good and stabile political and economic climate, Business friendly legal environment, being subject to further adjustments.

Possible competitive advantages in several sectors, especially natural resources and human resources based; Relatively good and improving infrastructure.

Educated and comparatively inexpensive labor force; Competitive and technically skilled human resources; Entrepreneurial spirit of population; An existing diversified industrial base; Possible hub for some businesses in the Balkan area; Strategic position in the Balkans.

Attractive environment:

Sustainable development; Open for cooperation with all countries; Abundant investment opportunities; National treatment for domestic and foreign investors, Computer literacy, well-trained and dedicated workforce; Education as a stepping stone for development; Continuity in structural reforms; Stimulating tax and other legal relieves and exemption; Ongoing Stabilization and Association process with the EU

12. Investment Promotion Unit

Operates since 1996 in the field of FDI

ONE STOP SHOP-Provides you with a full range of free services

Image building of the country

Investment generation

Information on existing legislation

Proposals for changes in legislation and submitting reports to the Government

Assistance in identifying companies seeking investment and arranging contacts with potential partners

Advise on specific investment opportunity, including companies profiles

Conduct direct negotiations with strategic Investors

Assisting and servicing Investors in the process of registration

The Reforms of the Macedonian Economy
 “Seminar about Foreign Direct Investment into Southeastern Europe”
 Tokyo, November 2002

The economy of the Republic of Macedonia is probably one of the rare examples of economies, which during past years, owing to objective economic conditions imposed by the crises in the region, has shown losses that are bigger than the gross annual domestic product. This indicates that the Republic of Macedonia has large economic and human potentials at its disposal, which under different conditions and with the appropriate material suppositions would show incomparably larger profitability.

During the entire period of transition, the Republic of Macedonia was dedicated to radical measures, whose purpose was to apply practical solutions for the implementation of necessary reforms at all levels in the country, with priority placed on the economic system. The reforms in the Republic of Macedonia were conducted simultaneously through transformation of state bodies, institutions, the system, with priority given to legal solutions for transformation of capital organization of companies, the financial sector, foreign-trade regime and customs operation. They were carried out in collaboration with international financial organizations, especially with the World Bank and the IMF.

Radical changes have been also made in the legal sphere in the areas of taxes i.e. the enactment of the value added tax, regulations related to the foreign investments, not just guaranteeing the security of investments, but also building up promotional solutions for their stimulation.

It is of special importance to point out the results that have been achieved in privatization and restructuring.

Changes of ownership have increased the dynamics of development of private initiative and entrepreneurship. Formally and from legal point of view, the process of privatization of socially owned capital is finished. A confirmation of such conclusion is provided through the number of privatized companies, their capital and the number of employees in these companies.

The post-privatization phase is undergoing right now. It is characterized by the internal restructuring with regards to capital ownership, as well as technical-technological restructuring according to market needs in order to increase efficiency. Small and medium sized enterprises from the private sector have taken active part in the reforms of the Macedonian economy. They successfully realize the qualitative and quantitative changes in the economic structures. Institutions that are indispensable to the process of privatization and for the purpose of introduction of market economy in general, have also started to operate. Those are the currency market and the securities market. Private company's stocks are listed on the Stock Exchange through stockbroker companies and their buying and selling is free. A large number of foreign companies are present on the domestic market.

With the assistance of USAID, the Ministry of Finance of the Republic of Macedonia, the Macedonian Business Center are establishing several projects for private sector support and strengthening. The EBRD in partnership with IFC and KfW from Germany are on the way to establish the Bank for micro crediting that will grant credits to small business without mortgage but with other types of guarantees.

The major changes resulting from the reforms in the economic system, executed during the transitional period, are directed towards the building of a favorable environment of an open market economy. It ensures free transfer of goods and capital and opportunities for attracting foreign investments. There are several progressive measures built in the legislation.

- The Law on Tax on Profit, defining the tax rate at a level of 15% contains many provisions according to which legal entities are exempt from payment of this tax;

- The Law on Personal Income Tax, provides for two rates: general of 19% and Favorable of 5% which applies to one part of foodstuffs as an instrument for protection of the living standard, as well as to electricity, medicines etc.

- Legislation related to concessions (the Law on Concessions, the Law on Construction Land and the Law on Mineral wealth) provides an opportunity through guaranteed right of ownership of construction land and legal protection of ownership.

According to Law on Agricultural Land, the Government can provide concessions of state owned agricultural land and domestic and foreign legal entities and individuals. The long-term lease can range from 5 to 40 years and the short-term up to 5 years.

According to Law on Free Trade Areas the land can be leased out to foreign investors for a period of 50 years with a possible extension of that period for additional 25 years.

The Law on commercial companies to a great extent corresponds with the existing legislation in the countries of EU, and it precisely stipulates all business relations between different types of companies.

The Customs Law provides for exemptions from paying customs duties by foreign investors in several instances, when importing equipment or spare parts that represent founding investment and are used for basic business purposes.

One also has to note the changes and transformations in the financial and insurance sector. The share of the foreign capital in a major part of the banking organizations and in the larger insurance company is expected to encourage the foreign companies to enlarge their presence in the Macedonian economy through well-established long-term cooperation and higher forms of interrelationship.

There are 21 banks operating in the Republic of Macedonia, with majority having an authorization by the National bank of the Republic of Macedonia for payment transactions, loans and guarantees, and starting from last year, they are successfully completing these activities.

In accordance with the Law on Banks, when a bank establish another bank, the share in the capital can reach up to 100% subject to prior approval by the National Bank of the Republic of Macedonia and the minimum limit for the capital of a bank with major authorization is 9 million Euro.

The concentration of capital is mainly located with two major banks, and the dominant portion of the banking industry is located in the capital city Skopje. The level of privatization of the banks is 87,4% and the share of foreign capital in the total banking capital of the Republic of Macedonia is 37,4%.

The Insurance Law does not provide for limitations in overtaking control packages of stocks by foreign strategic investors. The share in the capital can reach up to 100% subject to prior approval by the Minister of Finance in case an insurance company establishes another insurance company. There are four private insurance companies on the domestic financial market, whereas the large one is dominantly owned by QBE Inter. Insurance LTD-London.

The economic stability of the Republic of Macedonia depends directly on the results of foreign trade. As a result, the Republic of Macedonia has chosen the path of liberal foreign-trade system and membership in wider economic integration. Free Trade Agreements signed with large number of countries have surpassed one of the drawbacks of the country's economy, the small size of the market. The Stabilization and Association Agreement signed with the EU, the official joining to WTO and the orientation towards membership in other associations, create a suitable climate for commencement of investment activities in the Republic of Macedonia by domestic, and also by foreign investors. We hope that the long-standing monetary and macroeconomic stability contributed towards stable economic conditions, the existing infrastructure and stabilization of the region will contribute to further increase of the foreign investments.

The liberalization of the trade and introducing the policy of its facilitation was promoted among the countries in the Region within the Stability Pact. The Pact aims to increase the regional trade through lowering and canceling the tariff and non-tariff barriers in the trade and through implementation of measures for facilitating the trade in the Region and wider.

A regional approach was established for the infrastructure projects, strategic studies were developed for the main areas of infrastructure and transparent procedure for promoting the regional projects was created. Republic of Macedonia has signed FTE with Slovenia, Croatia, FRY, Turkey, Bulgaria, Albania, Bosnia and Herzegovina, Ukraine and EFTA member states. Macedonian integration in the WTO creates opportunity for initiating the negotiations on country's admission in CEFTA.

The economic and natural potentials of the Republic of Macedonia and the well-established stable and stimulating regime within, represent an important foundation for attracting the interest of foreign partners for investment in the Macedonian economy. The developed structure of industrial production and the established system of regulations of incentive measures enables investments in the establishment of mixed ownership companies, joint exports, through concessions, and other forms of business collaboration.

In the field of industry and mining, as a dominant activity with a share of over one fifth of the creation of gross domestic product, there are important potential opportunities for investment. The field of processing industry, electrical industry, production and processing of chemical products, non-metal industry and production of construction materials, the exploitation of mineral raw materials, power supply

sector are most suitable for foreign investments. In addition, the production of wine, textile industry, tobacco processing industry, fur and leather processing industry, food processing industry, agriculture, transportation, telecommunication, tourism are the sectors with high investments potentials.

Foreign Direct Investment were almost entirely absent in the Republic of Macedonia until 1998 which was the first year when movement of investment activity with total FDI inflow of US\$ 117 million was recorded, mostly through post-privatization transactions of sale of privatized companies to strategic investors.

The 1999 Kosovo crisis had a direct reflection on the investment climate in the Republic of Macedonia and only US\$ 32 million in FDI were recorded that year. The year 2000 was the most successful year for the Republic of Macedonia regarding the FDI inflows reaching US\$ 175 million. This trend would have certainly increased in 2001, if the security situation in the country was not deteriorated. Despite that, the FDI inflows in 2001 reached a high amount of even US\$ 443 million, US\$ 340 million out of which around came from the sale of Makedonski telekomunikacii to the Hungarian company MATAV.

A process of rationalization of the Program for Investment in the Public Sector of the Republic of Macedonia is being carried out on the basis of Government priority. Investment opportunities exist through concessions under BOT schemes in the public infrastructure system (mainly energy sector and road construction).

The Republic of Macedonia is a party to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards as well as the Geneva Convention on Execution of Foreign Arbitral Awards. Macedonia is also a party to the Washington Convention on the Settlement of Investment Disputes between States and Nationals of other States and the European Convention on International Commercial Arbitration.

Domestic sources of Macedonian arbitrary law include the Constitution of the Republic of Macedonia, the Litigation Procedure Law, the Law on Settlement of Disputes concerning the Laws and Regulations of other countries in certain relations and the Macedonian Law on Trading Companies.

Macedonia has a satisfactory network of paved highways. A major highway parallels the railroad in the North-South corridor and plans are underway to upgrade the secondary roads connecting Macedonia with Albania in the West and Bulgaria to the East (Corridor No. 8).

The railway network consists of over 900 km of lines. The main North-South line from Belgrade to the port of Thessaloniki (Mediterranean sea) passes through Skopje. Macedonia has two international airports in the capital city Skopje and main tourist resort in the South-West of the country, Ohrid.

The country has a well-developed communications network. Additional investments are needed to upgrade the technology and to increase the capacity of the lines.

About 80% of the energy needs in the Republic of Macedonia are met by domestic production of thermal and hydroelectric power.

The installed capacity of the TPP are 1,010 MW and 390 MW of HPP. The total annual production amounts 6,400 GW/h. An oil pipeline between Skopje and Thessaloniki is currently under construction, as well as a natural gas pipeline to carry Russian gas from the Bulgarian border to Skopje.

The relatively good and critical mass of educated and comparatively inexpensive labor force, competitive and technically skilled human resources combined with the traditionally entrepreneurial spirit of the population create hospitable environment for attracting foreign investments in the Republic of Macedonia.

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