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FOREIGN DIRECT INVESTMENT: GLOBAL AND LOCAL FLOWS (THE CASE OF THE REPUBLIC OF NORTH MACEDONIA)

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Abstract
Foreign direct investment (FDI) is the notion that can be summarized in the form in which it represents the process in which an enterprise from one country invests capital in an existing enterprise or in a new enterprise established in another country. The standard definition of foreign direct investment is given by the Organization for Economic Cooperation and Development (OECD), according to which FDI is defined as the establishment of a lasting interest in and significant degree of influence over the operations of an enterprise in one economy by an investor in another economy. FDI has proven to have an expressed importance mainly in allowing the transfer of technology – especially in the form of new types of capital inputs – that cannot be achieved or at least in the form and volume required through financial investment or trade in goods and services. FDI has already proven that it can boost competition in the domestic input market, but also motivates the employment of domestic labor. In recent decades, the global map of inflow and outflow FDI has changed considerably. Traditionally, FDI originated from developed economies, which have recently gained significant ground in the share of FDI flows between geopolitically aligned economies. In particular during financial crises there is substantial evidence that FDI can lead many developing countries to consider it as an inflow of selected private capital and in certain cases even as a single capital inflow. Such a thing finds support in the tendency of economists who insist on the free flow of capital across national borders because it enables capital to have more favorable preconditions for return at the highest rate. However, the tradition has recently been changing, making the largest sector for FDI projects to be closely related to software and IT services. Investors see rising commodity prices, increased geopolitical unrest and political instability, as well as high inflation in an emerging market as the most likely risks at this time. The official data provided by World Bank (WB), International Monetary Fund (IMF), OECD, as well as the local National Bank and State Statistical Office are unanimous that in the last 20 years, North Macedonia has maintained a continuous increase in FDI, but unfortunately, at a comparative level with the countries of the region, it continues to lags behind. The North Macedonian authorities are progressing towards the Precautionary and Liquidity Line (PLL) objectives, including preserving public finances, reducing energy subsidies, tackling high inflation and ensuring financial stability, which will also increase the possibility real for FDI inflows.
KEY WORDS: foreign direct investment, financial, capital, input, market, economies.
JEL: F21

Introduction

Foreign direct investment (FDI) represents the action with the purpose of purchasing a significant number of the shares or part in the foreign business company with the purpose of influencing the management of the activity and operating policy in the market. FDI is a major driver of international economic integration. With the right legal and policy framework, FDI can provide financial stability, promote economic development and improve the welfare of societies (OECD Benchmark Definition 2008). A key feature of the FID remains that it establishes effective control of the foreign business or at least significant influence over its decision-making.

Financial markets have evolved into a more integrated global framework as a result of increasing exchange liberalization and easier market access. This integration, accelerated by increased competition among market participants, has led to the framing of new financial instruments with wide market access and lower transaction costs, attracting many investors from different countries and economies. Furthermore, the expansion of cross-border financial flows has been further accelerated by technological innovations in communication and data processing (OECD Benchmark Definition 2008).

FDI is the essential node in this rapidly developing international economic integration, also referred to as globalization. FDI provides a mechanism for creating direct, sustainable and long-term linkages between economies of scale and distinct development. Under the right policy environment, it can serve as an important tool for the development of local enterprises, and can also help improve the competitive position of both the receiving ("host") and the investing ("home") economy. In particular, FDI encourages the transfer of technology and knowledge through the so-called "know-how" between companies. The indicators included in this group are internal and external values for stocks, flows and incomes, by partner country and by industry and FDI restrictions.[1] FDI, in addition to the aforementioned positive effect on the development of international trade, is also an important source of capital for a number of host and domestic economies (OECD Benchmark Definition 2008).

Foreign investment has been a key factor in shaping the world economy since the Second World War. Alongside international trade, foreign investment gradually became a signifi cant vehicle of international business leading to economic wealth and prosperity. The establishment of liberal market economies worldwide, as well as technological breakthroughs during the last decades have elevated the importance of foreign investment (Dimopoulos 2011).

The relationship between the free movement of capital and the freedom of establishment in respect of direct investment is still a matter of debate. Although direct investment is not mentioned explicitly within Article 63(1) of the Treaty on the Functioning of the European Union (TFEU), it is generally accepted that it forms a subcategory

of capital movement. Owing to the fact that the notions of establishment and direct investment are not mutually exclusive but overlap to a great extent, the economic activity of direct investment falls generally also within the scope of Article 49 of the TFEU (Bungenberg & Griebel, Hindelang, 2011).

The earliest international legal rules concerning foreign investors and investment assumed a tripartite set of actors: the home state, the host state and the investor, of whom only the first two had legal standing. While this situation still represents the formal limits, *ratione personae*, of international law it does not fully explain recent developments in the field of foreign investment. It is not suggested here that investors, whether natural or legal persons, are acquiring international legal personality. Rather, as the protection of investors and their investments has become an established goal of many capital-importing states, they have been prepared to accept the obligation, in international law, to observe certain standards of treatment and, in most cases, to provide for the effective implementation of such obligations through the extension of direct treaty-based dispute settlement rights to investors, allowing them to use international dispute settlement procedures against the host country and/or its agents and entities. Thus investors, be they natural or legal persons, enjoy a measure of international *locus standi* before international tribunals in relation to investor protection obligations in investment agreements (Muchlinski & Ortino & Schreuer, 2008).

In the absence of a single multilateral investment treaty and worldwide investment institution, judicial interpretation and application of the applicable treaty and customary law rules often lack coherence and transparency; their input-legitimacy (for example, in terms of respect for human rights, citizen rights, and democratic governance), output-legitimacy (for example, in terms of serving the general interests of all stakeholders rather than unilaterally favoring investor interests) , and effectiveness (for example, in terms of just and legally coherent dispute settlements) remain controversial among governments, lawyers, and civil society, for example, in case of mutually inconsistent judgments, one-sided 'balancing' among public and private interests being involved, lack of appellate review procedures, high social costs of confidential arbitration awards worth millions, damages for foreign investors, and perceived lack of a 'level playing field' for all interests involved (Dupuy & Francioni & Petersmann, 2009). Consequently, with the advent of investor-state arbitration in the latter part of the twentieth century – and its exponential growth over the last devade – new levels of complexity, uncertainty and substantive expansion are emerging. States continue to enter into investment treaties, and the number of investor-state arbitration claims continues to rise (Brown & Miles, 2011).

Theoretical background

Definition

The definition of investor and investment are among the key elements determining the scope of application of rights and obligations under international investment agreements. As far as the definition of investment is concerned, most investment agreements adopt an open-ended approach which favours a broad definition of investment. They refer to "every kind of asset" followed by an illustrative but usually non-exhaustive list of assets, recognizing that investment forms are constantly evolving (OECD International Investment Law, 2008).

Why is the definition of investor and investment so important? From the perspective of a capital exporting country, the definition identifies the group of investors whose foreign investment the country is seeking to protect through the agreement, including, in particular, its system for neutral and depoliticized dispute settlement. From the capital importing country perspective, it identifies the investors and the investments the country wishes to attract; from the investor's perspective, it identifies the way in which the investment might be structured in order to benefit from the agreements' protection (OECD International Investment Law, 2008).

The definitions of FDI made by the organizations and institutions that have it as an object of treatment and that continuously follow the development trend of FDI do not differ much in essence.

- The *Organisation for Economic Co-operation and Development (OECD)*: "FDI is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Such investments have the set threshold of a minimum of 10% of shares in foreign-based compensation ownership" (OECD Detailed Benchmark Definition, 1996).
- The *World Bank (WB)*: "FDI refers to the category of cross-border investment related to a resident of an economy who has control (ownership of 10% or more of the ordinary voting shares) or a significant degree of influence in the management of an enterprise that is resident in another economy".[2]
- The *International Monetary Fund (IMF)*: "The term describes a category of international investments made by an economic enterprise (direct investor) with the objective of creating a lasting interest in an enterprise resident in an economy other than that of the investor (direct investment enterprise). FDI thus includes both the initial transaction between two entities and all subsequent capital transactions between them and between related enterprises, both incorporated and unincorporated" (IMF Balance of Payments Manual, 1993).
- The *United Nations Conference on Trade and Development (UNCTAD)*: "FDI is defined as an investment that reflects a substantial interest and control by a foreign direct investor, resident in one economy, in an enterprise resident in another economy".[3]

If the definitions given by theoreticians are analyzed, not only do they not differentiate, but it can easily be

concluded that they are based on the definitions of the aforementioned organizations and institutions. Foreign investment involves the transfer of tangible or intangible assets from one country to another for the purpose of their use in that country to generate wealth under the total or partial control of the owner of the assets. There can be no doubt that the transfer of physical property such as equipment, or physical property that is bought or constructed such as plantations or manufacturing plants, constitute foreign direct investment (Sornarajah, 2010). Such definition of foreign direct investment differs from portfolio investment. Portfolio investment is normally represented by a movement of money for the purpose of buying shares in a company formed or functioning in another country. It could also include other security instruments through which capital is raised for ventures. The distinguishing element is that, in portfolio investment, there is a separation between, on the one hand, management and control of the company and, on the other, the share of ownership in it (Sornarajah, 2010).

FID can be done in various ways, including opening a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or through a merger or joint venture with a company foreign. Companies or governments considering an FDI generally consider target firms or projects in open economies that offer facilities and favorable conditions to foreign investors, primarily a skilled workforce and above-average growth prospects for the investor including also providing of management, technology and equipment. A key feature of the FID is that it establishes effective control of the foreign business or at least significant influence over its decision-making.[4]

FIDs are commonly categorized as horizontal, vertical, or conglomerate:

- A horizontal FDI is the most common type of FDI which mainly revolves around the investment of funds in a foreign company that belongs to the same activity as the one owned or operated by the FDI investor. Here, one company invests in another company located in another country, where both companies produce goods or provide similar services.
- In a vertical FDI, a company acquires a complementary company in another country. It occurs when an investment is made within a typical supply chain in a company, which may or may not necessarily belong to the same industry.
- In a conglomerate FDI, a company invests in a foreign company that is different to its core business (this kind of FDI often has the form of a joint venture).

The role of FDI

The role of FDI in international and local capital flows is examined in light of statistical data research and studies. FDI is considered to have taken off during the 1980s as firms from many nations expanded their international operations, mainly from the industrial economies (which accounted from the vast majority of total measured flows worldwide). This is largely a manifestation of the much discussed 'globalization' of business that has taken place during the past forty years (Graham 1995).

FDI flow, by definition, an increase in the book value of the net worth of investments in one country held by investors of another country, where the investments are under the managerial control of the investors. Most of these investments are, in fact, subsidiaries of multinational corporations (MNCs) and the investors are the parent organizations of these forms. Thus, FDI flows mainly represent the expansion of the international activities of MNCs (Graham 1995).

Because FDI inflows can take a number of different forms that will contribute more or less significantly to human development in the host country, it matters considerably which type of investment is encouraged (De Schutter & Swinnen & Wouters, 2013). The rising interest in foreign investment was mainly triggered by the widespread conviction that foreign investment contributes to the competitiveness, economic growth, and development of recipient countries. Despite the existence of conflicting empirical evidence, a common conclusion reached in the vast majority of scholarly work on this topic is that foreign investment can contribute significantly to the host country's development, adding to its economic wealth and welfare. Foreign investors bring essential economic resources, such as financial capital, advanced technology, and production techniques, production facilities and machinery, and managerial expertise which potentially allow the host economy to raise its level of domestic output, to engage in existing or undertake novel activities more efficiently, and to penetrate international markets, thus earning more tax revenues and foreign exchange and allowing competitive substitution of imports (Dimopoulos 2011).

Over the past two decades, policy makers have increasingly come to appreciate that FDI is crucial to a country's economic success. Past institutions and government strategies restrictive to FDI inflows have generally given way to those geared toward attracting and retaining such resource transfers. These have included several waves of investment liberalization, an increasing variety of investment incentives, and additional protections for foreign investor (Sauvant & Sachs, 2009).

It is widely held view that a positive relationship exists between the arrival of FDI and development, and that attracting foreign capital is essential to developing countries in order to finance their growth and to improve their access to technologies. However, beyond that general language, a number of questions remain. Perhaps the most widely studied of these concerns the relationship between the nature of the foreign investment considered and their impacts on development (Sharma & Gani 2004). On the side of the investor, FDI may be undertaken in order to gain access to natural resources or other strategic assets, such as research and development capabilities, in order to reach new consumer markets, or in order to exploit locational comparative advantage (De Shutter, Swinnen & Wouters 2013). However, it is politically tempting for the host government to invoke sovereignty reasons (and, even more precisely, the permanent sovereignty of its people over natural resources) or the need to provide basic

services such a water and electricity to its population at an affordable price, in order to justify nationalization measures or the forced negotiation of the terms of agreement with the foreign investors present (De Shutter, Swinnen & Wouters 2013).

According to UNCTAD, in order to reap the full benefits from FDI, the developing host country may need to supplement an open approach to inward investment with further policies. In particular, it may need positive measures to increase the contribution of foreign affiliates to the host country through mandatory measures such as, for example, performance requirements and through the encouragement of desired action by affiliates through. Such policy measures entail a degree of regulation. This may involve some measure of intervention in the freedom of action of the foreign investor and controls over the manner in which the investment can evolve (Muchlinski & Ortino & Schreuer, 2008).

The shift from national to international level holds equally true for international investment relations, where the demand for international investment law has amplified parallel to an increase in foreign investment flows since the end of the Second World War. In fact, foreign investment often takes place in a situation that requires international cooperation as an ordering structure, not so much because of the element of transborder flows of investment, but due to the involvement of the host country as a sovereign actor. While host country and investor initially have largely converging interests in attracting and making investments, the situation changes once an investment has been made. As the investor's option to simply withdraw his investment and re-employ it elsewhere without severe financial loss is limited, the host country has an incentive to change unilaterally the original investment terms by changing an investment contract, amending the law governing the investment, or even expropriating the investor without compensation (Schill, 2009).

FDI has been soaring in recent years. This spectacular growth has been fed by increasingly close integration of national economies, driven by worldwide competitive pressure, economic liberalization, and the opening up of new areas to investment. Developing countries have shared in the growth in FDI inflows, and quite a few of them have become a source of outflows (Foreign Direct Investment 1997). Consequently, FDI does much more than provide developing countries with financing for their growth. It brings them new technologies, management techniques, and market access as well. Thus, FDI may be stimulated by exploitation of proprietary technology or natural resources or by access to markets (Foreign Direct Investment 1997).

Mapping FDI inflows shows the extent to which host countries are integrating into the globalizing world economy. It also indicates indirectly the distribution of benefits from FDI. Understanding the pattern of FDI flows and stocks and its driving forces is important for the formulation and implementation of economic strategies and policies (World Investment Report 2001). Many factors influence the flow of FDI to developing countries, but the most obvious one is often overlooked: namely, the willingness of developing countries to allow it (World Investment Report 2001). With domestic investment in an economy being circumscribed by changes in demand and technology, high profits and low interest rates, an external stimulus to investment is often felt imperative to boost capital formation in the economy. In case of the developing economies that are typically plagued by low levels of productivity leading to low levels of wages and hence low levels of savings and investment, again perpetuating the low productivity levels, an external injection in the form of foreign investment often acts as a vehicle to break away from the 'vicious circle' (Chaudhuri & Mukhopadhyay, 2014). Recently, countries that have liberalized have benefited more from FDI. Moreover, globalization continues to blur the distinction between foreign and domestically owed enterprises, and between developed and developing countries (World Investment Report 2001).

FDI has played an important – if at times controversial – role in the growth of emerging economies. From time to time, developing countries have expressed serious misgivings about the economic, social, and political consequences of foreign investment. Most commonly, they have feared losing control to foreigners over important parts of their economies and excessive drains on profits as foreigner investors, exercising 'oligopolistic powers', make off with excessive profits. Some of these policies may have captured a larger part of the economic rents, but at the expense of reducing the investment's overall benefits (World Investment Report 2001). In addition, FDI has given the global integration process a major boost by helping link markets for capital and labor and raise wages and capital productivity in recipient countries. With newly liberalized trade and investment regimes and new technologies lowering transport and communication cost, multinational firms have espoused increasingly global strategies to capture the large savings arising from specialization and dispersion of activities. As a world network of multiple linkages has developed, intra-firm trade across national boundaries has increased sharply between parents and their affiliates in developing as well as developed countries (World Investment Report 2001).

Nevertheless, the positive impact of FDI is not always apparent and there is also a potential for negative effects to arise (Dimopoulos 2011). Indeed, a critical view of the contribution of FDI to economic growth and development to recipient countries indicates that the effects often depend on the initial conditions prevailing in the host country. Empirical evidence suggests that FDI follows development and that its positive effects are significantly greater in countries that are already developed. For example, poor human capital conditions in the recipient country decrease its absorptive capacity to take advantage of the positive spillover effects on technology transfer, entrepreneurship of domestic firms, and other linkages. Moreover, FDI may have a negative impact on the growth of the recipient country, for example in countries with imperfect competition conditions it can lead to the creation of foreign-owned monopolies, the crowding-out of domestic firms, and eventually to generation of unemployment. FDI may also potentially cause significant social and environmental harm, leading to a 'race to the

bottom', as recipient countries, in their effort to attract foreign investment, may lower, or tolerate the violation of, their environmental, labour, and other social standards. FDI can also have detrimental eff ects for capital-exporting countries, as it deprives them of capital which if invested domestically could boost local entrepreneurship and international competitiveness, and may severely aff ect employment, in particular in cases of domestic companies transferring their business abroad (Dimopoulos 2011).

Methodology

The author uses a number of scientific methods in order to carry out the research and prove the established hypotheses and achieve the intended findings regarding the flow of foreign investments on a global scale and their reflection on a national scale in North Macedonia, including: analytical, synthetic, normative, interpretive, statistical, comparative and historical method.

Results

Global inflows of FDI

Over the last decade, the share of FDI flows among geopolitically aligned economies has kept rising, more than the share for countries that are closer geographically, suggesting that geopolitical preferences increasingly drive the geographic footprint of FDI.[5] The prospects for international investment looked extremely gloomy recently, with a cascading crisis of health, climate change and economic shocks causing investor uncertainty around the world. Rising inflation, fears of a recession and turbulence in financial markets put many investment plans on hold at the beginning of this decade. In the end, international investment flows did suffer, but proved more resilient than expected (World Investment Report 2003).

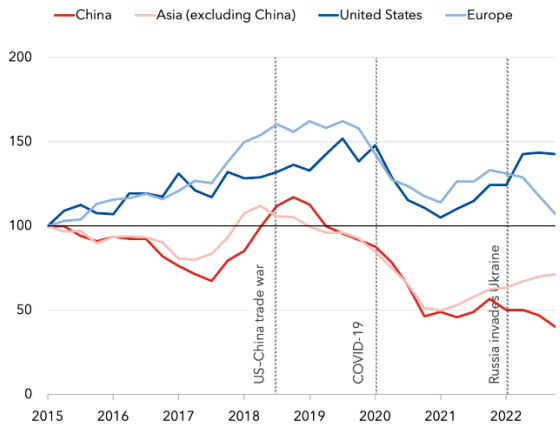

Fig. 1. FDI trends in countries (U.S., China, Asia and Europe)
Source: International Monetary Fund calculations

These trends also indicate that if geopolitical tensions continue to intensify and countries further diverge along geopolitical fault lines, FDI may become even more concentrated within blocs of aligned countries.

The marked growth in the level of FDI in recent decades, and its international scope, reflects an increase in the size and number of individual FDI transactions, as well as the increasing diversification of companies across economies and industrial sectors. Large multinational enterprises (MNEs) are traditionally the dominant players in such cross-border FDI transactions. What is noticeable is that in recent years even small and medium-sized enterprises have been increasingly involved in FDI (OECD Benchmark Definition 2008).

Chart 2 shows annual global FDI flows from 1999 to 2022 as well as quarterly and half-year trends from 2018 to 2022. Looking at half-year values, global FDI flows were up by 24% in the first half of 2022, topping any half-year level observed since 2018 before dropping by 58% in the second half of the year. Looking at quarterly values, much of the drop in global FDI flows took place in the last quarter of 2022, 95% down from the previous quarter.[6]

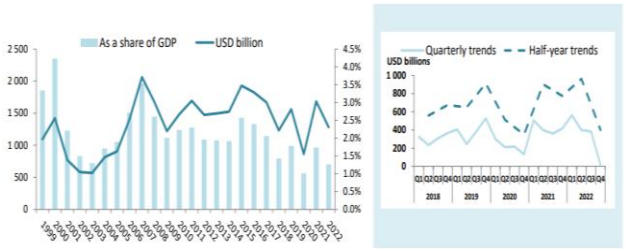

Fig. 2. Global FDI flows, 1999-2022
Source: OECD International Direct Investment Statistics database

FDI inflows to G20 economies decreased by 15%. While they were up by 7% in OECD G20 economies, they dropped by 38% in non-OECD G20 economies, largely driven by decreases in China and, to a lesser extent, in South Africa, from peak levels recorded in 2021. In contrast, FDI flows in Brazil went up by 68%, reaching a ten-year record high at USD 85 billion, due to larger reinvestment of earnings and movements in intra-company debt. Despite the drop in FDI inflows, the United States remained the top destination for FDI inflows worldwide in 2022 (USD 318 billion), followed by China (USD 180 billion) and Brazil (USD 85 billion) (Singapore and Hong Kong, China, are not listed as major FDI sources and recipients respectively, because the OECD considers that these economies are not the ultimate destinations or sources of a significant amount of their flows; instead these flows pass through on their way to and from other economies).[7]

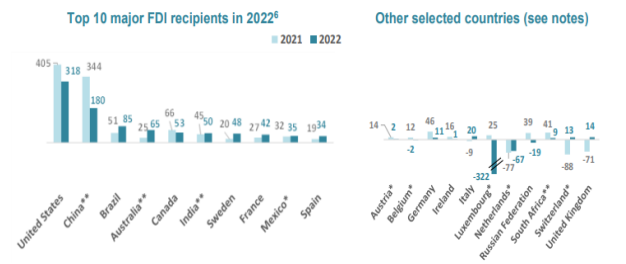

Fig. 3. FDI inflows to selected countries, 2021-22 (USD billion)
Source: OECD International Direct Investment Statistics database

After a steep drop in 2020 and a strong rebound in 2021, global FDI declined by 12% in 2022, to $1.3 trillion. The slowdown was driven by the global polycrisis: the war in Ukraine, high food and energy prices, and debt pressures. International project finance and cross-border mergers and acquisitions (M&As) were especially affected by tighter financing conditions, rising interest rates and uncertainty in capital markets. The global environment for international business and cross-border investment remains challenging in 2023. Although the economic headwinds shaping investment trends in 2022 have somewhat subsided, they have not disappeared. Geopolitical tensions are still high. Recent financial sector turmoil has added to investor uncertainty. UNCTAD expects downward pressure on global FDI to continue in 2023 (World Investment Report 2023).

FDI in North Macedonia

The official data of the World Bank argue the flow of FDI in North Macedonia. Thus in the last decade, the year 2014 marks a drastic collapse of the FDI from USD 402,458,309.8 in 2013 to USD 60,879,915.5 in 2014, to rise again with constant increases until 2020 which marks the year of the Covid-19 pandemic, where it was expected that FDI will have irrelevant figures, so only USD 7,693,779.7.[8]

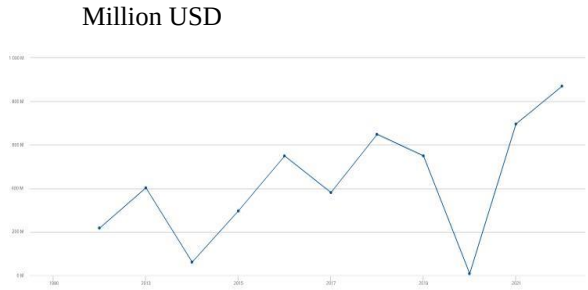

Fig. 4. FDI inflow in North Macedonia (mainly in the last decade)
Source: World Development Indicators

FDI into North Macedonia has witnessed a marked growth in foreign investment in recent years, and the aforementioned initiatives look set to encourage further interest from international companies. The facts, steps and actions mentioned above and not only resulted North Macedonia performing impressively in Investment Monitor's 2022 Inward FDI Performance Index. This means that North Macedonia, with a score of 11.5, received more than 11 times its fair share of inward greenfield FDI compared with what could be expected given its level of GDP. In that regard, North Macedonia is performing successfully in FDI terms.[9]

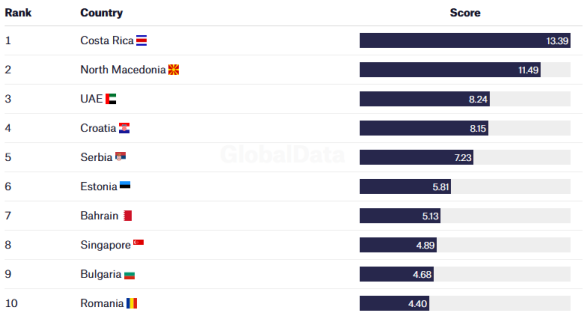

Fig. 5. Inward FDI Performance score
Source: GlobalData

Discussion

Closer economic integration is a particular feature of out times. It goes hand in hand with more intense international competition, presenting challenges as well as new opportunities for growth. This process is particularly evident in cross-border investment. Globally, direct investment flows increased during the 1990s at an annual rate of about 20% - much faster than, for example, cross-border flows, of goods and services. It is also worth noting that the investments flowed mainly between industrial countries (Herrmann & Lipsey 2003). In 2001 UNCTAD reports that from 1986 through 2000, worldwide cross-border outflows of FDI rose at an annualised rate of 26.2%, versus a rate of just 15.4% for worldwide exports of goods and services (World Investment Report 2001).

In the absence of adequate domestic savings, foreign investments provide an important avenue for the development of North Macedonia's economy. According to UNCTAD's 2022 World Investment Report, net FDI flows to North Macedonia increased significantly and reached USD 606 million in 2021, compared to USD 230 million a year earlier; while the total stock of FDI was estimated at USD 7.2 billion, around 52.2% of the country's GDP. According to figures by the Central Bank, the main investing countries in terms of stocks are Austria and the UK (EUR 913 million and 652 million, respectively), followed by Greece (EUR 612 million), the Netherlands (EUR 503 million) and Germany (EUR 471 million). Manufacturing is the sector that attracts the most FDI (34.8% of the total stock), ahead of financial and insurance activities (21.6%). Analyzed by investment activities, of the total direct investments, EUR 2,453 million or 35% were invested in the "Production" activity, while EUR 1,520 million or 21.7% were invested in the "Financial and insurance activities" activity.[10]

In order to create a legal and political platform for attracting as much foreign direct investment as possible, the Government of the Republic of North Macedonia has taken concrete steps:

- Amending and supplementing the Constitution to determine that foreign persons (in the relevant case, enterprises) in North Macedonia can acquire the right of ownership of property under conditions established by law (mainly under equal conditions as those of local persons to the condition of reciprocity) (Article 31 of Constitution of the Republic of North Macedonia, 1991). Moreover, striving to treat them equally with domestic investors, foreign Investors are guaranteed the right to freely and without additional obstacles make the free transfer of capital and invested profits. Rights acquired from invested capital cannot be reduced by law or other regulations (Article 59 of Constitution of the Republic of North Macedonia, 1991).
- Compilation of the Law on the Financial Support of Investments. This Law regulates the types, amount, conditions, manner, and procedure for granting financial support for investments of business entities which invest in the country (Article 1 of the Law on Financial Support of Investments, 2018). The purpose of this Law shall be to stimulate the economic growth and development in the Republic of North Macedonia through support of investments aimed at increasing the competitiveness of the Macedonian economy and employment (Article 3 of the Law on Financial Support of Investments, 2018). The total financial support that may be paid in accordance with this and another law may not be more than 50% of the amount of the incurred eligible costs. For large investment projects, the amount of the financial support under this Law shall amount to (Article 8 of the Law on Financial Support of Investments, 2018):
  (a) up to 50% of the eligible investment costs for an investment project of up to EUR 50 000 000;
  (b) up to 25% for the portion of the eligible investment costs for an investment project of EUR 50 000 000 to EUR 100 000 000; and
  (c) up to 17% for the portion of the eligible investment costs for an investment project exceeding EUR 100 000 000.

The following shall constitute types of financial support for investments (Article 14(1) of the Law on Financial Support of Investments, 2018):

(a) Support for new employments;
(b) Support for establishing and promoting the cooperation with suppliers from the North Macedonia;
(c) Support for establishing organizational forms for technological development and research;
(d) Support for investment projects of significant economic interest;
(e) Support for capital investments and revenues growth; and
(f) Support for purchasing assets of companies in distress.

On the other hand, the following shall constitute types of financial support for competitiveness (Article 14(1) of the Law on Financial Support of Investments, 2018):

(a) Support for increasing the competitiveness on the market;
(b) Support for conquering markets and sales growth.

- Compiling of the Law on Technological Industrial Development Zones. provides for a special tax treatment for any investor who invests in the appointed zones (Article 5 of the Law on Technological Industrial Development Zones, 2007), respectively, the purpose of this Law is to accelerate economic development by attracting foreign and domestic capital for the development of new technologies and their application in the national economy, increasing the competitiveness of the North Macedonia on the foreign trade market, increasing exports and increasing employment (Article 2 of the Law on Technological Industrial Development Zones, 2007).
- Compiling of the Law on one stop-shop system and keeping a trade register and a register of other legal entities, aims to tackle some of the administrative barriers of entry into the business life in North Macedonia. According to the Law of the One-Stop-Shop system, all types of trade companies are registered within 4 hours of submission (Article 41 of the Law on one stop-shop system, 2005). Another important feature of the One-Stop-Shop is the electronic distribution service that allows any potential investor or third party to obtain complete electronic information about the operations of companies in the country (Article 26 of the Law on one stop-shop system, 2005).
- Lowering and leveling of the flat tax rate to 10% for corporate and personal income tax purposes. Investors are eligible for reduction in the profit tax base by the amount of prior profit reinvested in tangible assets (such as real estate, facilities and equipment) and intangible assets (such as computer software and patents) used for expanding the business activities of the entity.[11] Establishing the Invest North Macedonia Agency in 2005. Its mission is to encourage and support new foreign direct investments in the country, establish and enhance business cooperation with local suppliers and promote the export potential of local companies to foreign markets.[12]
- Offering investors access to a large, low-cost labor pool, with 69% of the population within the working age group of 15-64 according to the State Statistical Office.[13]

NATO membership brings stability that can increase a country's attractiveness to foreign investors. Countries that have experienced this earlier (such as Poland, Hungary and the Czech Republic) provide the real examples of FDI growth after joining NATO.[14]

Conclusions

FDI as an investment by a party in one country into a business or enterprise in another country is always made with the intention of creating a lasting interest. FDI gains in importance with the greater integration of markets, opening of markets to receive capital, goods and workforce from various external sources, but also with the greater harmonization of legal rules in different countries. The paper summarizes the meaning and definition of foreign direct investments, the role and importance they have for the economy and global progress, its flow in the world perspective, ending with the current situation with a view from the last two decades in the Republic of North Macedonia. The paper thus provides the general overview of the flow of FDI based on the data that the OECD, IMF, WB, UNCTAD, Macedonian National Bank and Macedonian State Statistical Office continuously processes on an annual basis. In recent years, North Macedonia has been facing difficulties and obstacles for attracting foreign investors, and despite taking concrete measures to improve the investment climate, it still has not reached the desired point. What has been invested so far has had a key role in improving the local economic image, including: increased employment opportunities, increased export opportunities, the benefit of experience and technique from know-how, tax relief, as well as simplification of procedures for registration of commercial entities.

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