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# Investment Climate and Role of Technological Industrial Development Zones in Direct Foreign Investment Inflow in North Macedonia

Tirana Ameti

## Abstract

This article investigates the establishment of Technological Industrial Development Zones (TIDZ) in North Macedonia. These zones are aimed at attracting Foreign Direct Investment (FDI) and represent an innovative strategy to promote business relations that were previously unavailable in North Macedonia. If their output is sold to international markets, companies operating within the TIDZ benefit from incentives and subsidies. In addition to the legally announced incentives available to investors within the TIDZ, the government offers extra incentives on a case-by-case basis, in agreements with significant overseas partners. Since the introduction of this approach, the government has made a public display of its benefits. The consequences of the implemented strategy for FDI attraction deserves an effort for its analysis by all available means. Using the available data and sources from relevant documents, the focus in the paper will be put on the impact of the creation of such zones on the FDI inflow. North Macedonia is an attractive investment destination for international investors because of the fiscal, economic, and financial benefits provided by the actual law, as well as the excellent business climate, as measured by the 'Doing Business' indicator.

**Keywords:** business climate, investing, FDI, North Macedonia, economic development.

## Introduction

The North Macedonia's FDI growth rate remains low although the government provides a variety of fiscal and economic incentives and facilities to foreign investors. The fiscal and economic incentives for FDI attraction in North Macedonia consist of profit tax exemption, personal income tax exemption, VAT exemptions, local tax exemptions, land renting for more than a decade, subsidies and financial benefits for foreign investment based on the level of investment and the number of employees, which have not been calculated accurately due to lack of public data from government institutions and foreign investors. Despite the fact that these are attractive government policies in favor of FDI, the FDI levels in North Macedonia are not satisfactory and necessitate the use of independent professional expertise from relevant international institutions in the function of increasing transparency, removing investment barriers, and creating equal investment conditions for domestic and foreign investors. According to the data presented in the paper, the most recent strategy for attracting FDI, which included the creation of Technological Industrial Development Zones (TIDZ) as exemptions from the regular customs and fiscal areas of the economy, had some impact, but the inflow of FDI into the country is still low. However, it did result in some good changes, such as an increase in FDI inflows in the form of green-field investment in the TIDZ and acquisitions and mergers, which were the major type of FDI a decade before. The possibility of increasing the number of new employment opportunities also produced favorable changes in the structure of the workforce employed by TIDZ. The most serious disadvantage of TIDZ is that they openly discriminate against indigenous businesses in favor of international ones. It is obvious that, once favorable conditions for foreign investors are terminated, capital will flee out of the country, leaving all the old problems unresolved, such as high unemployment, a backward economic structure, outdated technology, low legal productivity, difficult access to foreign developed markets, and so on. Changes in comforts may not be motivated by economic or political concerns in the North Macedonian economy, but they will emerge in due course if full membership in the European Union becomes a reality.

With the spread of globalization processes in all fields of economic activity, the development of international trade and the international division of the labor process is becoming increasingly important. The apparent growth of international trade is marked by the following milestones: at the turn of the nineteenth century, global exports accounted for 1-2 percent of the global GDP; by the 1950s, they rose to around 7% of the global production; and by the turn of the twenty-first century,

they rose to 17 percent -20 percent of the global production, according to some estimates (Held, 2004). At the moment, the use of preferential international trade modes, such as those provided by the free economic zone concept, is particularly important when considering the expansion of foreign economic activity.

Among many challenges North Macedonia has faced, finding new ways for funding economic growth and development has been one of the most important. Faced with a severe lack of domestic accumulation and no access to international capital borrowing, North Macedonia, like all small economies in the Balkans and Europe, began to compete for the interest of foreign investors. North Macedonia appeared to be the least appealing economy in the region for foreign direct investment because it was a landlocked economy with a very limited domestic market, poor economic performance, and was plagued by numerous economic and political challenges throughout the transition period. At the turn of the century, the privatization process was nearly complete, which was thought to be the foundation for the entry of foreign capital in the form of FDI. Almost immediately, it became clear that foreign investors were not interested in green-field investment. They were looking for the opportunity to take control of companies that had a natural or state monopoly on the domestic market. Such firms were surpassed by minor amounts of foreign investment. Foreign investors were not interested in investing in the renewal of applied technology or in increasing productivity; they were only interested in the possibility of profiting from the economy's newly acquired dominant position.

According to the International Convention (Bruxelles, 1999) for Simplification and Harmonization of Customs Procedures, a free economic zone is a part of a state territory where goods are placed and considered as being outside the customs territory and not subject to normal customs control when levying import customs duties and taxes. Foreign practice in the development of such economic zones indicates that a unified approach to their designation has not been established yet.

One of the government's primary foundations for economic growth and job creation is attracting FDI. North Macedonia has a relatively lax regulatory environment, and its institutions treat foreign investors and indigenous commercial interests equally under identical conditions. In 2019, several countries and foreign companies announced new investments and operations in the Technological Industrial Development Zones in North Macedonia. Foreign car parts companies were drawn to North Macedonia because of its low labor costs, proximity to European automakers, and friendly government aid. The government's stance toward FDI, as well as its legislative and institutional structure, continue to be attractive also to

US investment, and as a result, a number of US enterprises operate successfully in North Macedonia.

## Legal Aspects Related to TIDZ

The legal framework for foreign investors is provided by the Constitution, the Law on Trading Companies, the Law on Foreign Exchange Operations, the Law on Expropriation, the Law on Technological Industrial Development Zones, the Law Establishing the Agency for Foreign Investments and Export Promotion (known as Investment Macedonia), and a number of sectoral laws and international treaties. Except as otherwise provided by law, the Constitution provides equal rights to both domestic and foreign individuals and legal entities conducting economic operations in the country. Foreign investors can get property rights for buildings and other immovable assets used in their business through a locally established company, as well as complete ownership of construction land.

The Law on Trading Companies permits foreign companies (whether subsidiaries, branches, or representative offices) to receive post-establishment national treatment, unless otherwise stated in an international agreement and/or a statute governing foreign corporations with a defined sphere of activity. The five categories of trading firms recognized by law are limited liability corporations, joint stock companies, public trade (general partnerships), limited partnerships, and limited partnerships by shares. Under the Foreign Exchange Operations Law, foreign investors, who have registered their direct interests are free to transfer profits, proceeds from the sale or disposal of ownership shares in direct investments, and the remaining balance of a liquidated investment abroad. We have complied with all of the North Macedonia's legal obligations concerning taxes and social insurance contributions, as per this law. Within 60 days of the capital transaction, foreign companies and non-resident individuals are required to report their direct investments and any alterations made to them to the Register of Direct Investments. Similarly, within 60 days of the real estate acquisition, they must report their real estate purchases to the Register of Investments in Immovable Property. Apart from these two conditions, in most economic areas, the procedures for both domestic and foreign investors are the same.

While non-residents' foreign exchange operations are liberalized, inhabitants of North Macedonia are not allowed to open foreign deposit accounts (with some exclusions), buy real estate, or buy stocks that are not traded on foreign stock exchanges with whom the country has agreements.

The passage of the Law on Financial Support for Investments (LFSI) in May 2018 represents a new development. Its goal is to promote productive investment in order to boost economic growth, employment, and competitiveness. It specifies the quantities, eligibility rules, and requirements for various sorts of financial support measures for both domestic and foreign investments.

Several ministries and agencies make the North Macedonia's institutional framework for investment. The investment policy is developed by the Ministry of Economy and the Deputy Prime Minister in charge of economic matters. Invest Macedonia is the government organization in charge of creating and implementing plans for attracting foreign direct investment and boosting exports. Its purpose is to stimulate and assist new FDI in the country, build and strengthen business ties with local suppliers, and help local businesses realize their export potential. It serves as a one-stop shop for potential investors. The Directorate for Technological Industrial Development Zones promotes investment, particularly in the automobile components industry, which is the primary activity of TIDZ. In addition, three ministers without portfolios are involved in FDI issues, one of them being in charge of the Improvement Regulations.

Considering that North Macedonia has been a member of the World Trade Organization since 2003, it has implemented and honored the conditions of the agreement for investments in its legal system. The Law on Technological Industrial Development Zones (TIDZ) gives enterprises, who invest in designated TIDZ, a preferential tax treatment, customs exemptions, and other benefits. Investment Macedonia's operations to attract foreign investment and promote exports are governed by the Law Establishing the Agency for Foreign Investments and Export Promotion.

## The Investment Climate in North Macedonia

To achieve greater economic growth and development as well as increased competitiveness, the government's strategic goals of attracting foreign direct investment (FDI) remain vital. The current government program places a lot of emphasis on creating backward connections between local businesses and foreign corporations doing business in the nation. The Government of North Macedonia has worked hard over the years to enhance the investment climate and make it more stable and predictable. These activities have received recognition. For instance, North Macedonia was placed the 10th out of 190 economies in the World Bank's 2017 and

2018 Ease of Doing Business index, respectively. In addition, the nation has implemented the second-highest number of modifications to corporation regulations since the early 2000s among the top 20 rankings.

North Macedonia was placed the 17th in the world for doing business in the 2020 World Bank Doing Business Report, down seven spots from the previous year. North Macedonia's previous credit rating was improved from BB to BB+ with a stable outlook by Fitch Ratings. Standard & Poor's affirmed its credit rating at BB- with a stable outlook. North Macedonia was placed the 106th out of 180 nations in Transparency International's Corruption Perception Index in 2019, down 13 spots from the previous year according to World Bank data and International Corruption Perception Index. According to the ease of doing business ranking taken from the Doing Business database from 2019 to 2020 displayed is the DB score for the top 20 rankings of 20 economies and North Macedonia stands in the 17th place with a score of DB 80.2.

### **Business Climate and Legal Aspects Related to FDI in North Macedonia**

The legal environment for foreign investors in North Macedonia is mostly in conformity with international standards, and overseas investors are generally treated the same as domestic investors in identical circumstances. For significant international investors working in the TIDZ, North Macedonia maintains a simplified regulatory structure. Large international enterprises operating in the zones have generally positive investment experiences and maintain positive relationships with government officials. However, the overall regulatory framework of the country remains complex, and frequent regulatory and legislative changes, combined with varied interpretations of the rules, create an unstable business environment prone to corruption. Although the government typically upholds the law, there have been several reports that some officials continue to engage in corrupt practices.

Social and economic crises had a significant influence on North Macedonia's economy and ability to absorb international investments. Businesses were laying off staff, manufacturing was diverted to needs, and the government began to impose reforms on businesses in North Macedonia.

From May 2, 2018 to May 1, 2019, 115 economies implemented 294 business regulatory reforms across the 10 areas measured by World Bank Doing Business 2020. Reforms inspired by Doing Business have been implemented by the economies in all regions. The following are the reforms implemented in North Macedonia:

**Table 1***Business Reforms in North Macedonia*

| <b>Business Reforms by type and year</b>  | <b>Explanation</b>                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DB2020 Enforcing Contracts:               | North Macedonia made enforcing contracts easier by simplifying the calculation of enforcement fees as well as making the overall process less costly. Employing Workers: North Macedonia changed its labor regulations on probationary period, priority rules during redundancy dismissals, reemployment, and severance payments.                                                                                           |
| DB2019 Dealing with Construction Permits: | N. Macedonia made the construction permitting process less costly by reducing the land development fees.                                                                                                                                                                                                                                                                                                                    |
| DB2017 Getting Credit:                    | N. Macedonia strengthened access to credit by amending its laws to implement a functional secured transactions system, and allow parties to grant non possessory security rights in a single category of assets with general descriptions.                                                                                                                                                                                  |
| Protecting Minority Investors:            | N. Macedonia, strengthened minority investor protections by increasing shareholder rights and role in major corporate decisions, introducing greater requirements for immediate disclosure of related-party transactions to the public, allowing greater access to corporate information during trial and clarifying ownership and control structures.                                                                      |
| Enforcing Contracts:                      | N. Macedonia made enforcing contracts more difficult by adopting amendments to the Law on Civil Procedure that mandate mediation before filing a claim, thus lengthening the initial phase of judicial proceedings. Resolving Insolvency: FYR Macedonia made resolving insolvency easier by changing voting procedures for the reorganization plans and allowing creditors greater participation in insolvency proceedings. |

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DB2016 Starting a Business: | N. Macedonia made starting a business simpler by introducing compulsory online registration carried out by certified agents. Protecting Minority Investors: FYR Macedonia strengthened minority investor protections by providing for both fines and imprisonment of interested directors in prejudicial related-party transactions. Employing Workers: 1) N. Macedonia introduced amendments to its Labor Relations Act relating to social contributions, employment contracts, independent contractors, annual leave, overtime work, health inspections and labor disputes. 2) N. increased the minimum wage. |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: Doing Business Database and Foreign Investors Council

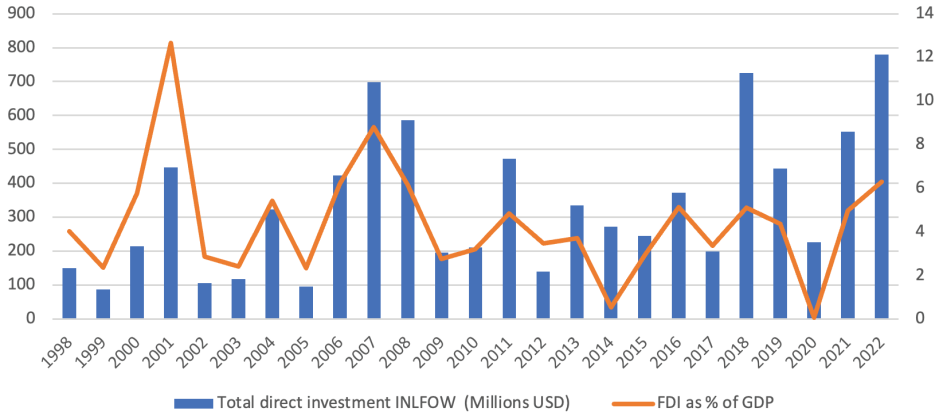
## Direct Foreign Investment Inflow in North Macedonia (1998-2022)

The largest FDI influx in North Macedonian history occurred in 2001 (see Chart 1), when the government sold Macedonian Telecom to the Hungarian MATAV, resulting in FDI accounting for 12.66% of the country's nominal GDP. The second largest FDI inflow occurred in 2007, when the Austrian EVN invested in the privatization of a portion of the state monopoly for electricity production and distribution – Elektrostopanstvo from Skopje – generating about 8.81% (see Chart 1) of the nominal GDP.

Nonetheless, throughout the first decade of the new century, as we can realize from the data in the table, North Macedonia's FDI inflow as a percentage of GDP was consistently low. Except for two peaks in 2001 and 2007, FDI inflows in North Macedonia generated roughly 2.3 - 6.30 percent of the GDP per year (see Chart 1). According to Irena K. (2013), for example, over the same time period, the economy of the majority of the South-Eastern countries attracted a significant amount of foreign investment with around 25% of their GDP per year. The lowest FDI inflow, from 2010 until 2022, was in the year of 2020, with only 0.06% (see Figure 1).

**Figure 1**

*FDI inflow per year (millions USD) and FDI as a percentage of GDP in North Macedonia*



Source: World Bank Indicators and National Bank of the Republic of North Macedonia

### Progress and Patterns of Investments (FDI) in North Macedonia

During the study period, the share of the Macedonian GDP attributed to merchandise imports and exports increased. Specifically, imports increased from 56.9 percent to 61.6 percent, while exports increased from 30.4 percent in 2012 to 45.5 percent in 2018 according to the World Bank data. While services imports rose, albeit more slowly, from 10.0 to 11.3 percent, services exports jumped from 14.0 to 14.6 percent. From 131.0 million EUR (1.5 percent of GDP) in 2012 to EUR 621.9 million in 2018, net inflows of foreign direct investment grew to 5.8% of the GDP. Following the conclusion of the country name issue and the ensuing improvement in the business climate, both the National Bank and the IMF anticipate a significant rise in foreign direct investment (FDI). The recently passed Financial Support for Investments Law is expected to facilitate this comeback.

During the period 2012-2022, FDI inflows rose in North Macedonia (Table 2). From the origin perspective, the European Union was by far the greatest investor with 658.6 EUR million in 2022, Turkey with 122.44 EUR million, Switzerland with 24.85 EUR million and China, which was almost absent in 2012, was in the fourth place with 18.77 EUR million (Table 2).

**Table 2**

FDI in North Macedonia by origin – 2012-2022

|                      | 2012   | 2013   | 2014   | 2015  | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|----------------------|--------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|
| Value in EUR million |        |        |        |       |        |        |        |        |        |        |        |
| Europe               | 128.18 | 253.70 | 187.79 | 50.90 | 301.81 | 142.79 | 525.32 | 215.83 | 200.08 | 434.42 | 658.60 |
| Türkiye              | 23.53  | 22.81  | 17.05  | 27.05 | 32.95  | 6.62   | 33.86  | 55.46  | 32.32  | 54.22  | 122.44 |
| Switzerland          | -15.05 | -8.50  | 131.68 | 3.46  | 18.19  | 25.06  | -12.30 | -13.50 | 4.50   | -2.90  | 24.85  |
| China                | -0.03  | -0.08  | -3.87  | 6.12  | 26.35  | 25.80  | 23.00  | 25.32  | -27.22 | -5.42  | 18.77  |

Source: National Bank of the Republic of North Macedonia

The leading economic sector in terms of FDI are the services, albeit its proportion dropped to 306.55 EUR million in 2022. Manufacturing is the second-largest source of FDI, with growing figures reaching 232.46 EUR million in 2022 and construction with 73.03 EUR million in 2022 (Table 3).

**Table 3**

FDI in North Macedonia by sector – 2012-2022

|                      | 2012  | 2013  | 2014  | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|----------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Value in EUR million |       |       |       |        |        |        |        |        |        |        |        |
| Services             | 38.53 | 96.57 | 74.77 | 311.22 | 16.49  | 112.82 | 151.14 | 159.89 | 104.58 | 263.63 | 306.55 |
| Manufacturing        | 49.35 | 85.17 | 57.87 | 58.94  | 196.94 | 65.15  | 342.29 | 124.70 | 4.42   | 52.81  | 232.46 |
| Construction         | 16.59 | 42.55 | 6.34  | 36.98  | 83.54  | 27.98  | 8.05   | 36.57  | -7.51  | 22.19  | 73.03  |

Source: National Bank of the Republic of North Macedonia

Following the release of the IBM Institute's report "Global Location Trends" for 2018, North Macedonia was among the top ten countries worldwide with the highest number of foreign direct investment jobs. The research was focused on the impact of foreign investors, and North Macedonia was ranked the first in terms of the

number of new jobs created per million people. North Macedonia was ranked the tenth in 2017, with little more than 1.400 new jobs per million people, or a total of 2.800 new jobs in 2017 if the country's population of two million people is taken into account.

Despite this, North Macedonia according to Foreign Investors Council, was the only country in the top ten in 2017 that saw its total average fall from 2012 to 2016. During this time, foreign investors employed 2.650 persons per million, on the average.

## **TIDZ and Their Influence on Business Climate in North Macedonia**

TIDZ (Technological–Industrial Development Zones) are hubs for highly productive clean manufacturing activities and development of innovative technologies. In addition to the advantages generally connected with free economic zones, North Macedonia provides additional incentives for development of TIDZ. Personal and corporate income tax exemptions are available to TIDZ investors for the first ten years. For commodities, raw materials, equipment, and machineries, investors are exempted from paying VAT and customs taxes. Furthermore, depending on the amount of investment and the number of employees, up to €500.000 in building costs can be provided as an incentive. Long-term leases for up to 99 years have been offered for land to a TIDZ in North Macedonia. Other advantages include completed infrastructure that allows for free natural gas connection. Water, power, and major international transportation network are all available. Investors are also excused from paying a charge for the construction site preparation. TIDZ offers quick procedures for registering business activities, lowering startup expenses even more. Production activities, IT-related activities (software development, hardware assembly, digital recording, computer chips, and so on), scientific research, and new technologies with high environmental standards are all given special attention by the government, with additional benefits planned in the TIDZ. TIDZ investors operating in certain areas are excluded from the requirement to submit a guarantee as collateral for any customs arrears.

## **Incentives and Taxes from the Government of North Macedonia to Foreign Investors in TIDZ**

With one of the lowest corporate income tax rates in the world, the Republic of North Macedonia enjoys an extremely favorable tax environment. North Macedo-

nia also has many Investment Zones that offer 10-year tax vacations on corporate earnings, employee income, VAT, customs duties, and other items.

- Personal income tax is 10%.
- Corporate income tax is 10%.
- General VAT rates are 18%.
- Incentives such as taxes, customs, and other incentives
- Tax holiday for ten years – For a period of up to ten years, investors in the free zones are entitled to a 10-year tax vacation for profit and corporation tax, as well as a 100 percent reduction in personal income tax. In the free zones, investors are excluded from paying value added tax on items imported and traded. In addition, investors are excluded from paying customs duties on machinery, equipment, and spare parts.
- Land in the Republic of North Macedonia's free zones is available for long-term lease at concessionary pricing for up to 99 years.
- Investors are excluded from paying utility taxes and costs for land building licenses to the local municipality.
- Unrestricted use of the water, sewer, and natural gas systems.

The main instrument utilized by the government to encourage and facilitate exports are the Technological Industrial Development Zones (TIDZ). These mostly draw multinational companies that process parts for global value chains (such as those in the automotive and industrial industries), import most of their inputs and almost entirely re-export their output. In contrast, other export promotion tools are smaller in scope, especially those targeted at small and local businesses. However, as part of the 2019–27 industrial strategy and the Law on Financial Support of Investments from May 2018, the Government planned to strengthen and restructure the institutional framework for export promotion and develop new subsidy programs in order to better include local businesses and SMEs. These plans are described below.

Foreign investors benefit from TIDZ in the following ways:

- A ten-year tax holiday for corporations;
- A VAT and customs duty exemption for imported raw materials, equipment, and building materials;

- No personal income tax for ten years;
- No property tax;
- A 0% excise tax;
- A free utility connection;
- A construction cost subsidy of up to EUR 500,000;
- A border-to-border green-light customs conduit for quick exports to EU members;
- Up to 99-year land leases; and
- Funding for employment creation and training.

**Table 4**

Taxation in North Macedonia – 2019

| Corporate taxation |     |                                                                                                                                                                                                                                                                                                                                                   |
|--------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Profit tax         | 10% | A profit tax of 10% is applied on realized profits. Corporate income tax is also levied on non-deductible expenses                                                                                                                                                                                                                                |
| Withholding tax    | 10% | Domestic withholding tax of 10% on certain payments to foreign residents. Double taxation treaty relief is possible                                                                                                                                                                                                                               |
| Special features   |     | Transfer pricing rules impose severe penalties on both corporations and responsible persons for the underestimation or false reporting of the taxable base                                                                                                                                                                                        |
| Value added tax    |     |                                                                                                                                                                                                                                                                                                                                                   |
| General rate       | 18% | On most goods and services                                                                                                                                                                                                                                                                                                                        |
| Reduced rate       | 5%  | Only on a few goods, such as food, drinking water, publications, seeds, agricultural machinery, fertilizers, wood pellets, computers and software, baby products, school supplies, pharmaceuticals and medical equipment, the transport of passengers, accommodations services, half-board and full-board services provided by hotelkeepers, etc. |

|                                         |             |                                                                                                                                           |
|-----------------------------------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Refund period                           | 30 days     |                                                                                                                                           |
| <b>Individual taxation</b>              |             |                                                                                                                                           |
| Personal income tax                     | 10%         | On income up to MKD 90,000 a month                                                                                                        |
|                                         | 18%         | On the portion of the income tax base that exceeds MKD90,000 a month                                                                      |
| Mandatory social security contributions | 27.5%       | 18.4% - pension and disability fund; 7.4% - health insurance;<br>1.2% - unemployment contribution; and 0.5% - additional health insurance |
| <b>Other taxes</b>                      |             |                                                                                                                                           |
| Property tax                            | 0.10%-0.20% | The tax base is the property's market value                                                                                               |
| Transfer tax                            | 2%-4%       | The tax base is the property's market value                                                                                               |

Source: WTO Secretariat, based on information in KPMG, Investment in Macedonia 2018.

These advantages must be approved by the Commission for the Protection of Competition. Every contract that a company enters into requires its approval since it attests to the fulfillment of the state aid requirements, which are based on the EU acquis. These areas are designed with export in mind. Forty-four (44) businesses that operate there are free to sell their goods locally, but normal customs, taxes, and fees will still be imposed. Four TIDZ are operationally complete. Three of them—Skopje 1, Skopje 2, and Shtip—are run by the Directorate for Free Trade Zones, while the Tetovo Zone is maintained by a public-private partnership with a Norwegian company. At different stages, further eleven zones are being constructed. The extent, variety, and total investment in the zones that are currently functioning are described in Table 5.

**Table 5**

TIDZ which is active in North Macedonia

| Zone name | Area (ha) | No. of investors | Cumulative investment (in EUR million) | Main operating industry |
|-----------|-----------|------------------|----------------------------------------|-------------------------|
| Skopje 1  | 140       | 12               | 208                                    | Automotive              |
| Skopje 2  | 97        | 1                | 25                                     | Automotive              |
| Stip      | 206       | 3                | 12                                     | ..                      |
| Tetovo    | 95        | 1                | ..                                     | ..                      |
| Prilep    | 67        | 2                | 20                                     | Automotive/plastics     |
| Struga    | 30        | 2                | 15                                     | ..                      |
| Strumica  | 25        | 1                | ..                                     | ..                      |
| Kichevo   | 30        | 1                | 15                                     | Electronic/cables       |
| Gevgelija | 50        | ..               | 15                                     | Automotive              |

Source: Data by the OECD

Thirty-two (32) foreign companies are currently operating in the TIDZ, employing 12,500 people and making up 36% of the workforce of the entire export value, especially for machinery, chemicals, and transportation equipment. According to an OECD study, TIDZs made up about 45% of all manufacturing FDI in North Macedonia during the preceding five years. Increased spillovers from these zones to domestic firms, especially SMEs, which have remained mostly inconsequential up to this point, are the goal of the new industrial plan, which was adopted in 2018. During the period under review, InvestMacedonia consolidated the network of thirty “economic promoters” dispersed throughout the embassies, with an emphasis on business-to-business (B2B) meetings, especially in the textile, ICT, and machinery sectors, as well as support participation in industrial fairs. Increasing manufacturing exports is one of the new industrial strategy’s five objectives. To achieve this, the action plan suggests fortifying the institutional structure for export promotion. In order to create an export plan that identifies the subsectors, goods, and nations to target, the Ministry of Economy will collaborate closely with InvestMacedonia on promotion and with the Ministry of Foreign Affairs on commercial diplomacy. As an exclusive point of contact for exports, InvestMacedonia will be acknowledged, and its Export Promotion Department will undergo a review and reform to allocate greater resources and capabilities to export promotion initiatives. A projected EUR 100,000 were allocated to these actions in 2019–20.

According to Intel iNews (2021), companies operating in North Macedonia's free economic zones accounted for 48% of the nation's total exports. This indicates that prior attempts to establish and operate in the region had an impact on the country's economy. This was revealed by analysis of the TIDZ evolution process. As of December 2020, the share was 3 percentage points (pp) more than it was, and more growth was anticipated. According to a TIDZ release, total exports from the zones increased by about 17% year over year in February 2019, which is 1.6 percentage points more than the yearly increase in exports the previous month. In February 2019, businesses in TIDZ made up over 40% of all imports into North Macedonia, totaling €249.3 million in imports—a 2% year-over-year increase. The companies employ more than 14,000 people in the free zones, and some of them are actively employing new staff. The companies are required, according to their current agreements with investors, to generate 7,500 new jobs. "The TIDZ state in the statement that the Directorate is putting into practice a new model of promoting foreign investments, which focuses on the needs of investors and adjusts state support and measures accordingly." The Directorate have also stated that they are intensively working on a new set of measures for development of human capital, which will contribute to greater productivity and higher wages. In the last three months alone, the Directorate has received letters of intent from several existing and new investors for new projects that could bring new investments of €80mn-100mn, if realized. TIDZ currently supervise 14 free zones in various stages of development. The biggest one, Bunardzik, is located near the capital Skopje.

## Conclusion

It can be stated that the global experience with the international economic relations development cannot be envisioned without the functioning of TIDZ, and research indicates that the same is true for North Macedonia. These economic zones are a unique way of development and operation of economic relations that were previously absent in North Macedonia, and there is no doubt that their importance is critical. In countries with varying levels of economic development, different types of special economic zones are used. North Macedonia is an attractive investment location for foreign investors due to the fiscal, economic, and financial incentives that the actual law provides, as well as the excellent business climate as measured by the 'Doing Business' indicator. The fiscal and economic incentives for FDI in North Macedonia consisted of profit tax exemption, personal income tax exemption, VAT exemptions, local tax exemptions, land rental for more than

a decade, subsidies and financial benefits of foreign investment based on the level of investment and the number of employees, which were not calculated accurately due to the lack of public data from government institutions and foreign investors. Additionally, due to lack of publicly available local and regional data, it was also impossible to compare the financial, fiscal, and economic data of North Macedonia's zones with those of the region. Even though the government provides a variety of fiscal and economic incentives and facilities to foreign investors, North Macedonia continues to have a low FDI level. This fact requires the use of independent professional expertise from relevant international institutions in the function of increasing transparency, removing investment barriers, and creating equal investment conditions for domestic and foreign investors. According to the data presented in the paper, the most recent strategy for attracting FDI, which included the establishment of Technological Industrial Development Zones had some effect and resulted in some positive improvements. This can be seen in the increase of FDI inflows through green-field investment in the TIDZ and acquisitions and mergers, which were the primary types of FDI a decade before. Additionally, they increase the number of new jobs created and make positive adjustments to the structure of TIDZ workforce.

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