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## **FINANCING OF WINE SECTOR IN THE REPUBLIC OF NORTH MACEDONIA THROUGH FOREIGN DIRECT INVESTMENTS**

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**Abstract:** The agricultural sector in the Republic of Northern Macedonia seeks to attract increased foreign direct investment (FDI) as a potential important contributor to filling the investment gap and providing development benefits. The whiskey sector could benefit from FDI, which is mainly derived from inflows of funds, increased investment in fixed and infrastructure capital, technological overflow, increased human capital investment, more job opportunities, knowledge transfer, managerial, organizational and institutional capital, new business opportunities for local companies through service contracts, exploitation of viticulture and winemaking opportunities, and promotion of new value chains, integration into the world economy and productivity growth.

Implementation of agricultural policies that contribute to the development and greater competitiveness of agriculture, including in viticulture, means providing favorable access to credit, covering some of the costs of raising vineyards and subsidizing grape production. Implementing an agrarian policy that results in the development and enhancement of the competitiveness of Macedonian wine should make our wine recognizable and the world should recognize grape and wine producers as serious and quality agribusiness partners.

**Keywords:** foreign investments, wine production, small businesses.

### **SITUATION OF FOREIGN DIRECT INVESTMENT IN THE REPUBLIC OF NORTHERN MACEDONIA**

Foreign direct investment is one of the cornerstones of any newly created economy with a small and relatively closed market. They represent investment in foreign capital or investing in multinational companies in the host country. In a national economy, foreign direct investments stimulate production, import of know-how, employment growth, infrastructure development, contribute to poverty alleviation, increase competitiveness, increase economic growth.

Foreign direct investment (FDI) plays a very important role in business development. They can enable the firm to provide new markets and marketing channels, cheaper means of production, access to new technologies, products, knowledge and financial resources. Foreign direct investment, in its classical definition, is defined as the investment of a foreign company in a given country. Investments can be in the form of physical investments that mean building factories and providing equipment and techniques, direct purchases from foreign companies, constructing facilities or investing in joint ventures and encouraging the creation of strategic alliances with the intention of introducing technology, licenses or intellectual knowledge<sup>1</sup>.

When it comes to foreign direct investment it should be noted that they represent direct investments in the means of production of a foreign company in a country. Investments can be in:

- Production area – intended to create new operational or production opportunities;
- Forming new or merging with existing companies;
- Entering international companies, companies that carry out business activities in more than one country.

Direct investments are international investment transactions for the purpose of acquiring a lasting economic interest in an enterprise that is resident in an economy other than that of the investor, and in order to gain influence in the business strategy of that enterprise.

Foreign direct investment can also be defined as capital investment by foreign companies or multinationals in facilities, in the form of enterprises or branches in the host country.

The National Bank of the Republic of Macedonia makes the following classification on the form of investment<sup>2</sup>:

*Direct investments* – investments by which the investor intends to establish a permanent economic relationship and/or exercise the right to manage the legal entity in which he invests. Thereby, as a criterion for defining direct investment, in accordance with international recommendations and standards, a minimum share of 10% in the equity or voting right of the legal entity in which the investment is used is used. Direct investments include equity, reinvested earnings, and debt to related parties.

*Investment Portfolio* – includes investments in debt securities and equity securities, where the investor holds less than 10% of the equity or has no voting power.

*Other investments* – include assets and liabilities based on short-term and long-term financial and trade credits and loans, currencies and deposits, and other assets and liabilities. According to the IMF Balance of Payments Manual, trade credits are the receivables and liabilities arising from the commercial operation of residents abroad (on the basis of export / import of goods and services, advance payment, etc.).

Foreign direct investment in the Republic of Northern Macedonia, overall and within the agriculture, forestry and water economy sectors have different dynamics which is characterized by significant oscillations from year to year (table 1, fig. 1).

Indicators show that in the period from 2003 to 2019 the flow of foreign direct investment, both in total and in the agricultural sector, is of varying intensity, and very variable from year to year. High levels of foreign investment were recorded in 2007 (505.87 million euros), and since then there has been a steady decline since 2011. It is notable that FDI in 2018 showed the highest level of all years in the analyzed series.

Direct investment in agriculture accounts for only 1.6% of total investments in 2003, 0.6% in 2010, 1.3% in 2015, 0.8% in 2018. The level of foreign direct investment in agriculture during the whole analyzed period is below two percent, which is very low for any significant progress to be made in the development of this activity, including in the wine sector.

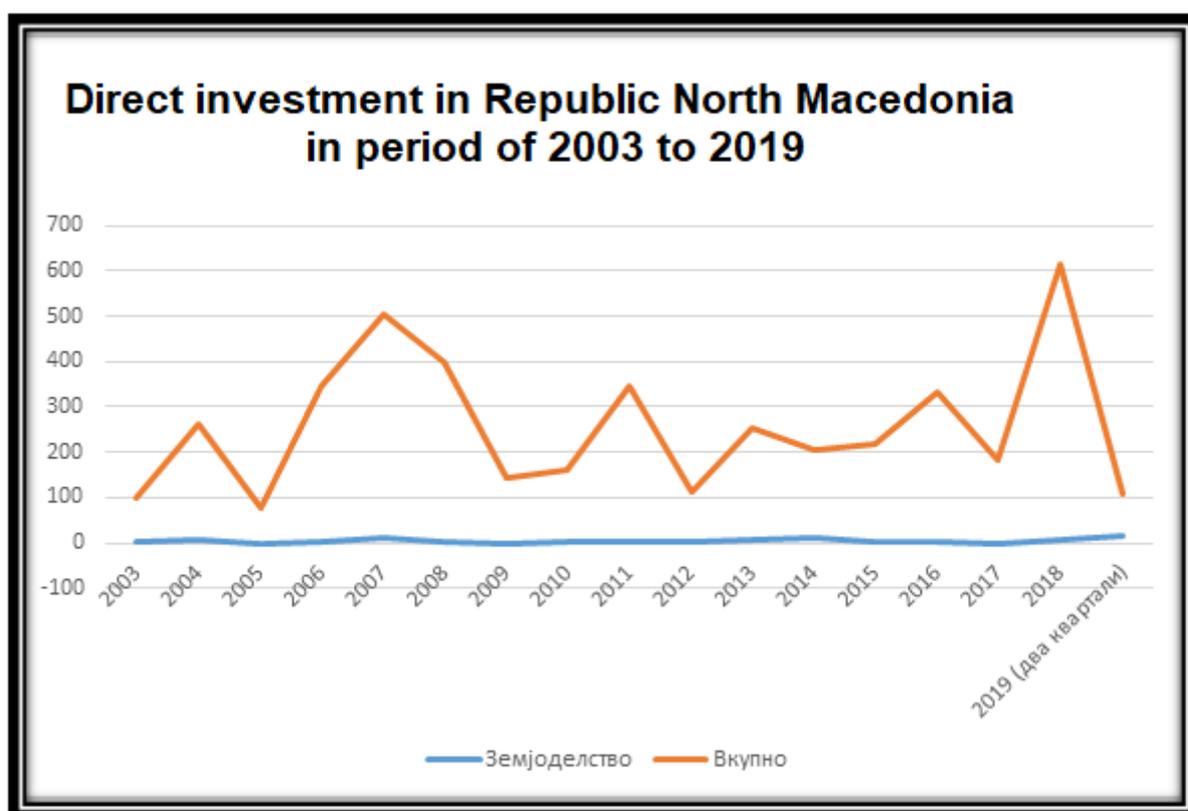
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<sup>1</sup> Graham, J. P., Spaulding, R. B. Understanding Foreign Direct Investment (FDI), 2011.

<sup>2</sup> National Bank of the Republic of Macedonia - Report on the International Investment Position of Republic of Macedonia (2003-2005). May 2007.

**Table 1.** Direct investment in total and in agriculture in the period of 2003 to 2019  
(in millions of euro)

Year	Agriculture	Total
2003	1,59	100,41
2004	8,38	260,67
2005	-0,84	77,21
2006	2,13	344,82
2007	10,46	505,87
2008	4,04	399,89
2009	0,08	144,97
2010	0,98	160,47
2011	2,64	344,41
2012	2,92	112,72
2013	8,28	252,20
2014	10,67	205,14
2015	2,75	216,72
2016	1,60	333,43
2017	-2,73	181,73
2018	4,70	614,08
2019 (два квартали)	13,47	110,14



**Fig. 1.** Direct investment in the Republic of North Macedonia in the period of 2003 to 2019  
(in millions of euro)

Source: National Bank of the Republic of Northern Macedonia, Direct Investments – Investments by Type of Investments from 2003 to 2019, [www.nbrm.mk/ns-newsarticle-direktni-investicii-vo-republika-makedonija](http://www.nbrm.mk/ns-newsarticle-direktni-investicii-vo-republika-makedonija)

## MEASURES TO ATTRACT FOREIGN INVESTORS IN THE REPUBLIC OF NORTHERN MACEDONIA

Foreign investment is constantly cited as one of the key elements for economic growth in the country. Implementing an active policy of attracting foreign direct investment is one of the measures to implement structural reforms in the country with the aim of accelerating economic growth and reducing unemployment.

Special incentives and preferential conditions with more laws, primarily customs and tax, are in place to attract foreign investment. The regulation governing foreign investment in Macedonia is as follows:

- Registration of foreign investments in accordance with the Company Law;
- Customs relief provided by a foreign investment in terms of Customs Law;
- Foreign investment in terms of the Law on Value Added Tax;
- Tax deductions under the Income Tax Act and
- Taxation of the income of a foreign natural person paid as dividend – in accordance with the Personal Income Tax Law.

According to the provisions of Article 183 indent 1 of the Customs Law on the basis of foreign currency deposit can be imported without payment of customs duties and customs duties equipment and spare parts (except cars and office furniture) under the following conditions:

- The foreign person's deposit is for a longer period of three years;
- The share should be at least 20% of the total capital of the taxpayer;
- Equipment and spare parts must not be older than 5 years from the date of their production and
- The taxpayer who used the exemption to work for at least three more years after the expiration of the last year in which he used the exemption from customs duty.

A second option for special privilege (foreign) on the basis of foreign investment is prescribed for the non-taxation of the profits made in accordance with the provisions of Article 33 of the Income Tax Law.

The basic condition for exercising the tax exemption for a foreign person is the exemption to be exercised by a taxpayer who invests funds from foreign persons in proportion to the share of foreign capital, provided that the share of foreign capital is at least 20% of the total joint venture capital invested in the company.

In order to attract foreign investors in the Republic of Macedonia, a larger range of measures and activities are undertaken, which include the following:

- Benefits in the technological industrial development zones: first 10 years profit tax exemption, double lower personal income tax in the first 5 years, reinvested income tax exemption, VAT and customs exemption, free zone infrastructure, co-financing part of the costs in accordance with the State Aid Act.

- The business climate. Creating conditions for increasing domestic and foreign investment, which is a prerequisite for private sector development and higher economic growth, established a unique institutional architecture to attract foreign investment investments, with staffing and finances of the Foreign Investment Agency Invest Macedonia and the appointment of two ministers in charge of attracting foreign investment, conducted a professional campaign in reputable world newspapers about the advantages of investing in Macedonia, Team Macedonia established and held Road shows, appointing 23 economic promoters in 21 countries worldwide to promote the Republic of Macedonia as a good investment destination, following the example of the most successful countries in the world that have attracted the most investment Diplomas, training and further training of diplomats in the diplomatic and consular missions of the Republic of Macedonia in charge of economic activities, Adopted comprehensive strategy for attracting foreign investments, with comparative advantages, targeted sectors and marketing plan, sector studies with competitive advantages: industry, agribusiness, tourism, IT and pharmacy, promoted

investment opportunities in the 4 free economic zones: Skopje (Bunardzik), Skopje 2, Tetovo and type, signed agreements to eliminate double taxation treaties and investment protection with significant current and potential investor countries.

### **POLICY FOR ATTRACTING FOREIGN INVESTORS IN THE VITICULTURE AND WINE PRODUCTION SECTOR IN THE REPUBLIC OF NORTHERN MACEDONIA**

Implementation of agricultural policies that contribute to the development and greater competitiveness of agriculture, including in viticulture, means providing favorable access to credit, covering some of the costs of raising vineyards and subsidizing grape production. Implementing an agrarian policy that results in the development and enhancement of the competitiveness of Macedonian wine should make our wine recognizable and the world should recognize grape and wine producers as serious and quality agribusiness partners.

Wine sector policy means creating conditions for growers and winemakers throughout the year as they depend on each other. This means giving subsidies and other additional support to winemakers in order to redeem grape producers and overcome if there are certain difficulties in operating.

Financial support measures in viticulture and winemaking create a business climate and are structured to allow raising the competitiveness of production primarily in foreign markets.

The business climate is created primarily by tax policy, where flat tax is applied, then by subsidies, facilitating access to credit, stimulating exports, fostering mutual cooperation, and by regulating and recording vineyards where domestic physical workers work. and legal entities and foreign legal entities, which have established long-term state-owned agricultural land, with which they operate without a contract. The measure is also used to provide state-owned agricultural land for raising new vineyards with new varieties of grapes.

The encouragement of the construction of new wineries encourages the development of alternative tourism, both wine and rural. In the Republic of Macedonia wine has always been of great importance and is an inevitable part of culture and tradition. It is a unique promoter of our country and internationally. Hence, new development investments and implementation of international standards are provided, production is increased and the opportunity for sale and promotion is expanded. This is also the basis for reducing bulk wine exports and opening new tourist accommodation. Such integration of agriculture and tourism creates conditions to strengthen the tourist offer and thus enable self-employment of the local population.

All these benefits of the created business climate in the viticulture and winemaking sector constitute a solid basis for the winemakers to focus their efforts on increasing cooperation with foreign partners and their inclusion in this sector which for them, and not only for the Republic of Macedonia bring significant financial effects. This is because Macedonian wine is largely sold on the foreign market, and domestic consumption is on the rise.

Out of the total foreign direct investments in the Republic of Macedonia, foreign direct investments in agriculture in 2018 reach about 1.7%.

Macedonia has all the prerequisites for attracting foreign investment in the wine sector by increasing its own recognition on the world wine market, and thereby further improving export and marketing of Macedonian wine. The long tradition in wine production, the extremely favorable climate factors for the cultivation of reputable grape varieties for wine production, but also the potential for producing quality wines from indigenous and regional grape varieties (Stanusha and Vranec) that are unknown, and therefore unknown Attractive to the already saturated market, they provide solid prerequisites for improving the image of Macedonian wines. The fact that Macedonian wines already have an excellent reputation among consumers in the region only confirms the potential for recognition they possess. In this context, it is necessary to strengthen the generic promotion of the Macedonian wine and the Republic of Macedonia, by strengthening the activities of communicating the advantages of Macedonia as a wine country, educating journalists,

wine connoisseurs, representation in famous wine magazines, as well as organizing joint promotion. the quality of Macedonian wines at foreign fairs and other events of a similar nature. In addition, the development of wine, rural and transit tourism, which is gaining in popularity on a global scale, is in line with the increasing recognition of the state worldwide, especially given the cultural heritage and natural potential it offers. Republic of Macedonia.

Attracting foreign investment should be aimed at providing investments to improve competitiveness and modernization of agricultural holdings, investments to modernize viticulture. Investments should be attracted to increase competitiveness through the introduction of new technologies and modernization of wine grape production.

## CONCLUSION

A positive effect of foreign direct investment can only be achieved if the recipient country has the capacity and incentive to invest in absorbing foreign technologies and experiences and if it has high quality human capital.

The Republic of Northern Macedonia, since its independence until today, has continuously made efforts to attract as much foreign capital as possible through foreign direct investment. A number of economic and legal measures are constantly being taken to create a favorable international investment climate and to achieve a favorable international investment position. In order to increase the interest of foreign investors to invest their capital in the Republic of Northern Macedonia, a range of macroeconomic policies and reforms, tax system reform, property rights protection and contract enforcement, as well as improved efficiency in the functioning of the legislative, judicial system have been undertaken and the executive and more efficient administration.

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