

Title: The impact of Foreign Direct Investments on employment: The case of Macedonian manufacturing sector

Abstract

Macedonia, as a less developed post-transition country, has marked a moderate growing economic performance coupled with high and sustained unemployment during the past decade. In this context, fostering FDI has been promoted by the Macedonian government as one of the main instruments for generating employment and providing further economic development. Despite its relevance, the assessment of these policies effectiveness including the FDI effects on employment has received little attention by researchers and policymakers. Having in mind the above considerations, the aim of this paper is to assess the impact of FDI on employment in the Macedonian manufacturing sector.

The main assumption of research is that foreign investor would enter an industry where he anticipates comparative advantages and high returns. Besides FDI, as potential determinants of employment in the manufacturing sector are considered the personnel cost, gross operating surplus and relative personnel cost in Macedonia in comparison with Serbia as major regional competitor in attracting FDI. In order to assess the impact of FDI on employment in the manufacturing sector a single equation error correction model is applied, where dependent variable is differenced once, while independent variables are included both in one differenced and one lagged versions thus accounting for their short-run as well as long-run effects.

The results indicate that FDI and personnel costs are statistically significant factors that positively affect employment in the manufacturing sector, which due to their interaction might indicate higher productivity in the companies with FDI. In addition, the negative impact of the relative personnel cost per employee vis-à-vis Serbia on short-run reaffirms the assertion that FDI in the Macedonian manufacturing sector are mainly driven by efficiency seeking motives. In contrast, the gross operating surplus does not appear as statistically significant factor affecting employment in the manufacturing sector.

The results from the analysis can be used for deriving several policy recommendations. First, given that the relative personnel cost has only an impact in the short run, government should aim for an incomes policy that tries to increase wages in line with productivity and inflation in order to keep competitiveness but also an acceptable level of income. Taking into account that profits have no influence on employment change, it suggests a reconsideration of the actual taxation policy. In this context, a higher tax rate on profits might generate substantial revenues that can be used to subsidise FDI and to exert additional positive effect on employment.

Keywords: FDI, employment, manufacturing