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The Republic of Macedonia: Factors of Economic Growth

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The Republic of Macedonia is a small, landlocked country in South East Europe. Sharing a southern border with Greece, a northern border with Kosovo and Serbia, an eastern border with Bulgaria, and a western border with Albania, Macedonia is at the center of the eastern portion of the so-called Balkan Corridor. The capital city, Skopje, is famously known as the birthplace of Mother Theresa. The varied history of Macedonia and a study of the country's complicated economy and demography is elucidatory of the issues Macedonia struggles to resolve.

The region that includes the modern country of Macedonia has long been an important trade route, particularly for commerce between Europe and Asia. For this reason, a variety of political forces have vied for control of the area. One of the most important mentions of Macedonia in the historical record is the description of Phillip II of Macedon—father to Alexander the Great.¹ Independent tribes of Illyrian and Thracian peoples inhabited the region for thousands of years and later developed into the modern day Albanian and Greek peoples respectively.²

The Slavic communities, relatives of the ancient Russians, began arriving in large numbers in the 6th century following the split of the Roman Empire—catalyzing an

¹ John B. Allock, "Macedonia," *Encyclopedia Britannica*, Last modified October 11, 2016, accessed April 11, 2017, <https://www.britannica.com/place/Macedonia>.

² *Encyclopedia Britannica*, "Macedonia."

important demographic change for the region and a source of continued controversy.³ Tribes of Bulgar Slavs also arrived, and together the Slavs became an ethnic majority as well as Orthodox Christians during the reign of the Greek Byzantine Empire. The Albanians of Macedonia largely converted to Islam after the Ottoman imperial forces replaced the Byzantines—bringing Turkish settlers with them. Serbia captured the area in 1912, and Macedonia’s inclusion in the confederacy of Yugoslavia further bolstered the number of Serbs and Bosnians.⁴ Official Yugoslav policy successfully encouraged most of the Slavic people of Macedonia to develop an ethnic “Macedonian” identity—angering the Greeks and Bulgarians who saw the Slavs as occupiers of land that rightfully belonged to them.⁵ This history resulted in a modern population that includes an ethnic Macedonian majority, a significant Albanian minority, and many communities of Serbs, Turks, Greeks, Bosnians, Vlachs, Bulgarians, and perhaps the largest Roma/Romani population in Europe.^{6 7}

Inter-ethnic strife is one of the dominant social forces impacting the political and economic development of Macedonia. The country gained a peaceful independence from Yugoslavia following a voter referendum on September 8, 1991, but weathered a large insurgency in 2001 led by aggrieved Albanian nationalists. Greece also sought to block

³ *ibid.*

⁴ *ibid.*

⁵ *ibid.*

⁶ *ibid.*

⁷ These people are also known by the name “Gypsy,” which they consider to be a pejorative. Official sources struggle to place precise numbers on the size of the Roma in Macedonia, but estimate that it is the largest in any European country. See Encyclopedia Britannica, “Macedonia,” <https://www.britannica.com/place/Macedonia>.

Macedonia from joining the U.N., but in 1993 finally agreed to admitting Macedonia under the name “Former Yugoslav Republic of Macedonia (FRYOM).” The issue of the name remains a reoccurring point of dispute between the two countries and has compromised Macedonia’s attempts to join the EU and NATO as it tries to establish its legitimacy to the international community.⁸ Foreigners must be careful to avoid using the term “Macedonians” or “Macedonian government.” Diplomats, educators, and investors must instead use the terms such as “the people of Macedonia” and “government of Macedonia” to avoid implying the supremacy of the Macedonian ethnic group and rhetorically erasing the ethnic minorities.⁹ An American diplomat very famously committed this gaffe in the late 1990s—a situation still ridiculed by the media of Macedonia.¹⁰

These political struggles negatively impact Macedonia’s effort to improve its economic standing. The 2015 estimate of GDP in 2016 dollars was \$10.49 billion, with a GDP-per-capita of \$14,500. The country has exploitable natural resources, including low-grade iron ore, copper, lead, zinc, chromite, manganese, nickel, tungsten, gold, silver, asbestos, gypsum, timber, and arable land. Roughly 44% of land in Macedonia is used for agriculture, and another 39.8% is forested, leaving only 15.9% for other uses. Macedonia continues to liberalize its economy while moving away from the industrial development practices of its Yugoslav past. Agriculture today comprises 11.2% of Macedonia’s GDP, with industry and services taking up the following shares of GDP at 26.3% and 62.5% respectively.

⁸ “Macedonia,” CIA World Factbook, Last updated January 12, 2017, accessed on April 10, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/mk.html>.

⁹ Kerin Hope, “Name that Country: What to Call Macedonia?” *Financial Times*, Last modified December 18, 2015. Accessed on April 12, 2017. <https://www.ft.com/content/643407b0-a587-11e5-a91e-162b86790c58>.

¹⁰ *ibid.*

Macedonia's main agricultural products include grapes, tobacco, and vegetables; likewise, the main industries are food processing, beverages, textiles, chemicals, iron, steel, cement, energy, pharmaceuticals, and automotive parts. The main exports include food products, beverages, tobacco, textiles, iron, steel, and automotive parts. The main imports include machinery and equipment, automobiles, chemicals, fuels, and food products. Most trade is conducted with Germany, the UK, and neighboring countries.¹¹

Macedonia is considered a moderate-growth country, with an annual growth rate of 2.2% in 2016. The country did not suffer as much as its neighbors did during the recent global financial crisis due to sound monetary policies, and experienced relative economic stability throughout the crisis.¹² According to the 2016 Country Commercial Guide published by the U.S. Embassy in Skopje, Macedonia has also made asserted efforts to develop an open economy and create an inviting environment for trade and foreign direct investment. There are no legal barriers to investment, but instead several legal incentives designed to encourage foreign investors. The report also states that Macedonia was ranked 12th of 189 countries in the world for ease of doing business.¹³ Unfortunately, Macedonia remains a relatively poor country with low purchasing power, high unemployment, and 30% of the population living under the poverty line.¹⁴ The small nation suffers from several serious issues that plague attempts to promote investment and job creation. Corruption is a

¹¹ CIA World Factbook, "Macedonia."

¹² CIA World Factbook, "Macedonia."

¹³ "2016 Country Commercial Guide: Macedonia," U.S. Embassy Skopje, Last modified March 2017, accessed April 17, 2017, https://mk.usembassy.gov/wp-content/uploads/sites/249/2017/03/2016_country-commercial-guide_mac.pdf, 5.

¹⁴ CIA World Factbook, "Macedonia." This is a 2011 estimate and the latest one available.

widespread phenomenon throughout Macedonia, affecting nearly every level and function of government—often going unpunished.¹⁵ Combined with constant inter-ethnic tension that further frustrates political functions, the current situation in Macedonia threatens to harm economic growth and prevent the country from moving beyond a description by a recent article in *The Economist* as “small, poor, and possibly explosive.”¹⁶

Transparency International ranks Macedonia as 90 out of 176 on its Corruption Rankings, and assigns Macedonia a meagre score of 37 out of 100 on the Corruption Index. Not only does this indicate a serious and endemic issue in the civic institutions of Macedonia, but this score also reflects a very high degree public distrust and disregard for the legitimacy of the government.¹⁷ This corruption especially aggrieves the Albanian minority, roughly 25% of the country’s population, as it often occurs at their expense. In 2001, radical Albanian groups staged an insurgency for seven months that left over one hundred dead and resulted in the only partially-implemented Ohrid Agreement, a national agenda for ethnic minority integration. Albanian national fighters again engaged in deadly clashes with the national government in the town Kumanovo in 2015.¹⁸

¹⁵ “2016 Investment Climate Statement: Macedonia,” U.S. Embassy Skopje, Last modified January 2016, Accessed April 17, 2016, https://mk.usembassy.gov/wp-content/uploads/sites/249/2017/01/2016_investment-climate-statement_mac.pdf, 9.

¹⁶ “Protestors want to topple Macedonia’s government over a corruption investigation,” *The Economist*, Last modified April 21, 2016, accessed April 15, 2017, <http://www.economist.com/news/europe/21697319-leaked-wiretaps-suggest-top-politicians-broke-law-president-ordered-investigation>.

¹⁷ “Macedonia (FYR),” Transparency International, Last modified January 25, 2017, accessed April 15, 2017, <http://www.transparency.org/country/MKD>.

¹⁸ Jaime Dettmer, “Macedonia’s Ethnic Disputes Provoke Fears of Spillover,” *Voice of America (VOA)*, Last modified March 14, 2017, accessed April 16, 2017, <http://www.voanews.com/a/macedonia-ethnic-disputes-provoke-fears-spillover/3765776.html>.

Political opposition parties such as the Social Democrats have made attempts to form coalitions with Albanian nationalist parties, acceding to Albanian demands for the national adoption of the Albanian language in official government functions and documents. The Social Democrats claim, however, that the dominant party VMRO has intentionally incited increased ethnic tensions by refusing to engage with such coalitions until Albanian language conditions are dropped from the coalition agendas. The VMRO, composed mostly of ethnic Macedonians, is accused of invoking Macedonian ethnic nationalism by hyper-focusing on issues like opposing Albanian language use in public institutions to distract the citizenry. By preventing minority parties from forming a coalition government, the VMRO stymies efforts to launch investigative corruption probes into illegal VMRO activity.¹⁹ This environment of ethnic conflict has had a deleterious impact on foreign investment.

The most recent indicator of the enormous reach of corruption in Macedonia can be seen in the current political turmoil surrounding Macedonia's frustrated attempts to hold national elections. After the main opposition parties publicized allegations of massive instances of governmental abuse and spying on its own citizens, Socialist Democrats leader Zoran Zaev released evidence that the government had wiretapped an estimated 20,000 people—an activity led by the cousin of then-prime minister Nikola Gruevski. Later information revealed that Gruevski and other top members of VMRO had committed election fraud and covered up suspicious deaths. The Social Democrats have subsequently boycotted repeated attempts to host new elections with accusations that they are rigged by the VMRO.²⁰

¹⁹ *ibid.*

²⁰ The Economist, "Protestors want to topple Macedonia's government..."

At the time of writing, VMRO remains in power, wielding a very heavy hand in the state-run media and further degrading a journalistic environment that Freedom House rates only as “partly-free.”²¹ In early 2016, massive protests arose throughout the country in response to President Gjorge Ivanov’s decision to pardon fifty-six people involved in the wiretapping, including Nikola Gruevski. The protestors vandalized new government buildings and monuments constructed as part of the “Skopje 2014” project that ultimately cost 560 million euros and went 480 million euros overbudget.²² Government expenditure is problematic in other ways as well, as the Heritage Foundation states that most government spending is dedicated to “social transfers designed to shore up support for ruling parties.”²³ An Article IV Staff Report released by the IMF states that the international business community is increasingly hesitant to invest in Macedonia due to the political instability that stems from both the high level of corruption and the significant animosity that exists between the different ethnic groups.²⁴ The continued and worsening internal turmoil in Macedonia counteracts the legal incentives for investment by promoting uncertainty of the country’s investment climate.

²¹ “Macedonia,” Freedom House, Last modified 2017, accessed on April 17, 2017, <https://freedomhouse.org/country/macedonia>.

²² Patrick Strickland, “Macedonia charges protestors in ‘Colorful Revolution,’” Al Jazeera, Last modified June 24, 2016, accessed April 18, 2017, <http://www.aljazeera.com/indepth/features/2016/06/macedonia-charges-protesters-colourful-revolution-160621113604856.html>.

²³ “Macedonia,” 2017 Index of Economic Freedom, The Heritage Foundation, Last modified January 2017, accessed April 17, 2017, <http://www.heritage.org/index/country/macedonia>.

²⁴ “Former Yugoslav Republic of Macedonia: 2016 Article IV Consultation-Press Release; and Staff Report,” IMF, Last updated November 21, 2016, accessed April 17, 2017 <http://www.imf.org/external/pubs/cat/longres.aspx?sk=44407.0,7>.

Macedonia also hosts an extremely large informal economy, with the estimated size of anywhere from 20% to 45% of the national GDP.²⁵ This may be due in part to Macedonia's unwieldy and cumbersome regulatory system which is defined in the 2016 Country Commercial Guide as excessive, inefficient, opaque, politicized, and "providing numerous opportunities for corruption and delay."²⁶ It should be noted that the size of this grey market also skews the official measures of the 24.9% unemployment rate in Macedonia, as some labor is clearly being redirected into this shadow economy.²⁷

Since leaving Yugoslavia, Macedonia has enacted many market policy reforms and has since realized a relatively high degree of economic freedom in the country.²⁸ Macedonia's growing issues, however, with ethnic conflict, entrenched corruption, and excessive bureaucratic red-tape remain large obstacles to the country's attempts to foster further economic growth. Macedonia's priority should be to focus on major institutional and operational reforms to achieve greater political transparency. Macedonia does have official laws and constitutional measures that mandate transparent practices, many of which were passed as Macedonia sought E.U. membership, but these codes are weakly enforced.²⁹ Transparency is an issue that could be addressed in a variety of ways. Macedonia should initially begin by repairing the lack of legitimacy—real and perceived—in the electoral process and governmental operations by completely outsourcing these services where it

²⁵ CIA World Factbook, "Macedonia."

²⁶ U.S. Embassy Skopje, "2016 Country Commercial Guide: Macedonia," 39.

²⁷ CIA World Factbook, "Macedonia."

²⁸ *ibid.*

²⁹ 2017 Index of Economic Freedom, "Macedonia."

can feasibly do so. Non-governmental organizations such as the National Democratic Institute (NDI) specialize in helping developing nations improve their democratic capacity, and they have an established success record.³⁰ Macedonia should avail itself of NDI's provided services that range from election supervision, ballot counting, promoting voter registration and participation, and providing assessments on government operations.³¹ Eventually, the government should be able to establish a culture of integrity and transparency that will reassure the public of the fairness and accountability of government services.

The establishment of governmental transparency and effective anti-corruption measures will allow for essential bureaucratic and regulatory reform to take place. Macedonia has attempted to harmonize all its laws with those of the E.U., but the government's claim to have eliminated 50% of all administrative processes has been disputed.³² The government of Macedonia should explore implementing e-government services, which automate certain government procedures that have suffered from bribe-taking activity—such as renewing a business license. The government should also overhaul much of the regulations on the books, particularly the many laws that contradict one another. Furthermore, the government should end the expedited voting and drafting procedures for new legislation, as this does not allow for proper Regulatory Impact Assessments.

³⁰ "What We Do," National Democratic Institute, Last updated 2016, Accessed April 17, 2016, <https://www.ndi.org/what-we-do>.

³¹ *ibid.*

³² U.S. Embassy Skopje, "2016 Country Commercial Guide: Macedonia," 35.

Finally, the government of Macedonia needs to enact serious constitutional reform requiring the universal use of the languages of historic ethnic minorities—including Albanian. Until Macedonia mandates equality, ethnic minorities will continue to be underserved by the government and prevented from enjoying full civil rights leading to unresolved political and violent conflict that discourages growth and foreign investment. Unless the government can effectively address the ethnic tension that threatens to rip the country apart, Macedonia will remain mired in poverty and subject to the corrupt forces that currently dominate the nation.

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