

The story of the railway in Macedonia: To liberalize or not?

The Government has recently given consent for amendments to the Law on railway system according which the liberalization of the Macedonian railway will take place after the country becomes a member of the EU. The Minister of Transport and Communications elaborated that the railway is not ready for liberalization since this step will have a huge consequence of social character in form of massive firing of employees working in the existing railway sector.

This opting out for a social solution rather than an economically viable one has triggered a mass of contra-arguments from the railway market representatives and potential investors. The Transport Association within the Economic Chamber argued that the liberalization will bring greater competition and therefore modernization of the railway infrastructure, and the potential investors were dissatisfied with the Government's decision since they intended to invest in this sector themselves.

This raises the crucial question of the pros and cons for liberalization of the railway market in Macedonia having in mind the possible social unrest from the railway workers and in case of postponement of the liberalization - dissatisfaction of the potential investors and private sector representatives. Should the liberalization be postponed with the danger of loosing potential investors? Could the Government prevent this social problem by investing itself in the railway system?

Let us begin the analysis with the state of the current railway infrastructure and the rationale behind their construction. It is no secret that the railway sector in Macedonia is in a very bad shape and the existing railway companies – Macedonian Railways-Infrastructure and Macedonian

Railways-Transport do not have the financial capacity to further invest and improve the railway infrastructure and services and make the railway sector competitive on EU level. Furthermore, two important pan-European Corridors – Corridor VIII and X (both road and railway) run through the territory of Macedonia, which are considered to be the bloodstream of the EU's Single Market and thus play a vital role in making it functional and dynamic. However, the railway infrastructure sections along Corridor VIII, which should connect Macedonia with Albania and Bulgaria, are still missing which completes the picture of this under-developed and marginalized public sector.

Secondly, in order the railway sector to be able to be competitive, it needs to be modernized and improved, which requires a huge funds especially for the pan-European Corridors. The state can participate in its financing with the limited funds from the development component of the state budget, with loans from the International Financial Institutions, which have to be returned with additional interest rate and with the available IPA funds, which in regard to the respective institutions' IPA funds absorbing capacity are in no case low-hanging fruits. However, the EC writes repeatedly under chapter 21 in the Progress Report on Macedonia that “substantial financial resources to upgrade the transport network infrastructure are still needed” making it clear that the state fails to address one of the essential points for further realization of the road and railway infrastructure projects – securing the finances. Moreover, in the state budget's development component for the Ministry of Transport and Communications for 2011, only 22% of the funds with additional 6% budget finances from loans on investments are secured for the railway infrastructure; while the remaining part was planned for the public transport buses project and the touristic attraction – the funicular railway project. The 2012 budget's development component for the same Ministry will still give priority to the public transport buses project and also significant funds will be spent for water supply. This

makes it clear that other areas under the authority of the Ministry of Transport have precedence.

Thirdly, conditioning the railway sector liberalization on the EU accession is a bad move knowing that Macedonia's entrance in the EU has stumbled inter alia upon the name dispute with Greece. Furthermore, Macedonia once again fails to show good treatment to interested investors, especially in such delicate and capital-intensive sector as the railway. Loosing the investors' trust is bad for the country's efforts to attract foreign investments.

Last but not least, as regards the possible mass firing, this social matter has to be seriously tackled within the respective ministry for social affairs in cooperation with the trade unions and other relevant actors, since the country will face this problem sooner or later. It is neither the first nor the last short term consequence of the liberalization, a process which is an inevitable precondition for improving a certain economic sector.

In conclusion, the liberalization is a transitional process which lasts long and brings short term problems as increasing unemployment in the affected sector, but brings much better services for the consumers in the long term and additionally has other positive development effects as stimulating trade, tourism and travel. Bottom-line, investments in infrastructure are productive and contribute to economic growth and job creation. Moreover Macedonia in light of the EU approximation process has to liberalize the railway sector and will have to do it sooner or later. The question which the Government has to raise is whether to proceed with sacrificing the long term benefits over the short time problems or show long term determination for improving this vital economic sector.

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