

POLICY BRIEF

THE REAL PRICE OF THE CHEAP LABOUR FORCE
Policies for attracting foreign investment in
Macedonia 2007-2015

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Between 2007 and 2015, Macedonia had five ministers for attracting foreign investments, the country was advertised in numerous media across the globe, the government organized around 60 road-shows in around 30 countries, 30 economic promoters were hired, special agency for foreign investments and export promotion was opened, as well as fifteen technological industrial development zones.

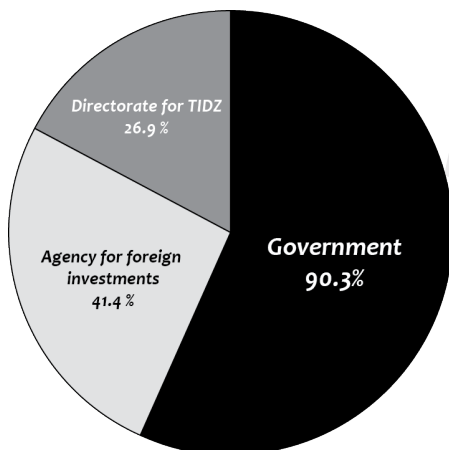
Foreign companies that invested in Macedonia were released from paying utility expenses, custom duties and taxes; they were receiving up to 500.000 euros for building their plants; 50% of their costs for education and training of workers was covered by the government; the government was also giving them up to 70% of the total investment they have made or up to 70% of the wages they have paid for the new employments in the first 2 years.

How much money the state spent on all these policies remains unknown. That is what this study is trying to estimate. In addition, it tries to evaluate the direct effects of these policies, alongside the working conditions and the labour rights in the foreign companies that received state support.

Expenses

Because of the lack of transparency regarding the expenditures related to these policies, the expenses are estimated through the expenditures from the budget of the Republic of Macedonia that are made under government programme „D – Economic development“, through three institutions – the Government, the Agency for Foreign investments and Export Promotion and the Directorate for Technological Industrial Development Zones. The main finding is that in the period 2007-2015 the state has spent a total of 159 million euros on attracting and supporting foreign investment.

Expenditures for attracting and supporting foreign investments by institutions (million euros)



Source: Author's calculations from the Budgets of the Republic of Macedonia

Effects

The following 25 companies that got support from the state have been analysed: Johnson Matthey, Draexlmeier, Kromberg & Schubert, Johnson Controls, Van Hool, Key Safety Systems, Technical Textiles, Gentherm, Lear, ODV Electric, Visteon Electronics, Condevo, Kemet Electronics, ARC Automotive, Kostal, Makdia, Cranfield Foundry, Europe Shock Absorbers, M Square, Istem Medical, Anthura, Startec, Endava, Markart, SMR Automotive.

The number of employees in these 25 companies in 2015 reached 12600 people. Around three quarters of them are employed in just three companies - Draexlmeier (5730), Kromberg & Schubert (2265) and Johnson Controls (1773). Van Hool and Johnson Matthey follow, with 668 and 613 employees.

When the money that was spent by the state for supporting the companies (159 million euros) is divided by the total number of employees in these companies (12600), one gets that the state support for one job position is around 12580 euros.

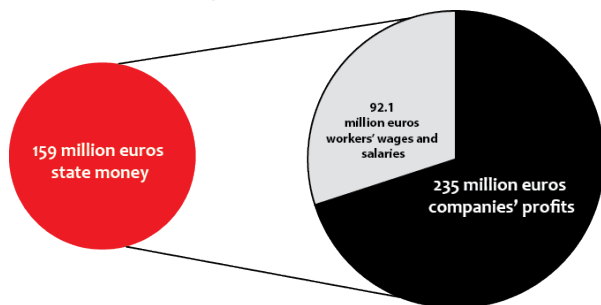
The average salary in the companies in 2015 is 261 euros, which is much lower than the average salary in the economy of 360 euros. The average salary is highest in Johnson Matthey (517 euros). Key Safety Systems, Endava, Markart and Kemet follow, with average wages in the range of 440-473 euros. Average salaries are lowest in the three companies that employ the highest number of workers. Kromberg & Schubert has an average salary of 239 euros, Draexlmeier of 235 euros, while Johnson Controls of 200 euros.

The total amount of salaries that was paid by these companies during 2007-2015 is 92.1 million euros. Most of these were paid by Draexlmeier (32.6 million of euros), followed by Johnson Matthey (13.1 millions) and Kromberg & Schubert (12.5 millions). Visteon, Johnson Controls and Van Hool have paid 10.5, 10.3 and 6.5 millions of euros as salaries, respectively.



In the analysed period, the 25 companies made net profits of 235 million euros, which are two-and-a-half times more than the salaries they paid. Most of these profits were acquired by Johnson Matthey (227 million of euros). Van Hool comes second, with total net profits of 10.5 million. Draexlmeier, Johnson Controls and Kromberg & Schubert follow, with profits of 5.3, 2.9 and 1.9 millions of euros, respectively.

Comparison of costs and effects



Source: Author's calculations from the annual accounts of the companies and the Budgets of the Republic of Macedonia

Considering that the amount of money the state paid for attracting and supporting the foreign companies (159 million euros) is much higher than the salaries these companies paid (92.1 million euros), it can be concluded that the state has directly generated part of the net profits of the supported companies. In other words, Macedonian tax payers' money is used to generate profits for the foreign companies.

Working conditions and labour rights

Working conditions and labour rights are analysed through interviews with employees in the five most significant companies - Johnson Matthey, Draexlmeier, Kromberg & Schubert, Johnson Controls and Van Hool. These five companies generate approximately 90% of the employment, salaries and net profits of all the analysed companies.

All of the analysed companies are employing on a temporary basis, which generates fear of losing the job, which then has a disciplinary effect on the workers. Workers think that the job is tough, that the norms are high and that the salary is not in accordance with the efforts they are making. None of the companies has a trade union and workers think that the employers will sanction if workers try to organize in a union. In one of the analysed companies, several workers were fired because of a strike that occurred due to unpaid salaries.

Examples of violation of certain labour rights are present in all of the analysed companies. Most common examples are mobbing, not paying work during weekends, forcing workers to work on weekends or holidays, and not allowing workers to use a day off. There are also examples when freedom of speech is restricted, when workers are not allowed to go to the lavatory and when workers are not informed about some health risks.

In most of the companies workers stated that there have been cases of workplace injuries. In one of the companies there was even a death case. Workers pointed out that the state institutions that are

supposed to protect their rights, i.e. the State Labour Inspectorate and the courts, are not doing their job.

Recommendations

First, spending big amounts of public money on attracting and supporting foreign companies should end. Through these policies, Macedonian tax payers' money end up in the hands of the owners of the foreign companies, who are violating workers' rights and are mistreating the workers.

Second, labour regulation should be changed, in the direction of bigger protection of workers. The maximum period of employment on temporary basis, which is currently 5 years, should be reduced, in order to lower the fear among workers of losing their job. Organizing strikes should be eased. Registering and operating trade unions should be also made easier.

Third, functionality of state institutions responsible for protecting workers' rights (the State Labour Inspectorate and the courts) should be improved, as there are examples of their severe shortfalls.

Finally, social security should be improved, through raising social benefits or introduction of a guaranteed income, so that the cost of losing a job would be lowered.