GLOBALIZATION AND THE LABOUR MARKET IN SOUTH AFRICA

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Abstract: The paper examines the impacts of globalization on labour in South Africa. A framework is developed to link different aspects of the process of globalization with labour market outcomes in developing countries. This framework is then applied to the South African case focusing on trade, foreign direct investment, technology transfer, macro-economic policies and the impact on the bargaining power of labour. The paper concludes that although globalization is only one of the factors affecting the South African labour market in recent years, the outcomes for labour, particularly unskilled labour, have been unfavorable. Copyright © 2006 John Wiley & Sons, Ltd.

Keywords: globalization; labour market; South Africa

1 GLOBALIZATION, GROWTH AND EMPLOYMENT IN SOUTH AFRICA

The impact on labour is at the centre of the current debate on globalization. South Africa is a particularly interesting case study for examining some of the key issues in this debate. Since the ending of apartheid, the South African economy has become increasingly integrated with the global economy. Although by no means a closed economy, South Africa under the apartheid regime had limited links with the global economy. Import substituting industrialization had been adopted as a strategy in the 1920s and by the 1980s had evolved into a highly complex system of protection. During the 1970s and 1980s the South African economy became less open with both imports and exports falling as a share of GDP. The imposition of sanctions and the pressures put on major TNCs over their links with the apartheid regime, also meant that South Africa received very little direct foreign investment during the 1980s. As a result, the stock of FDI fell as a percentage of GDP from over 20 per cent to less than 10 per cent between 1980 and 1990 (UNCTAD, 1998).

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These trends have been reversed in the 1990s, particularly after the ANC came to power in 1994, and the South African economy has become increasingly globalized. The share of imports and exports to GDP rose significantly, as did inflows of foreign investment. There was also increased financial globalization as portfolio investment and short-term capital flows shot up and a number of leading South African firms listed on international exchanges (Hayter et al., 2001, pp. 15–19).

However, contrary to expectations, globalization of the South African economy has not been accompanied by rapid employment growth. In fact the rate of growth of employment in the formal sector fell from 1.9 per cent in the 1970s to 0.7 per cent in the 1980s and has been negative since 1990 while high and rising levels of unemployment have been a major economic and social problem. The manufacturing sector, which is often seen as the key to employment creation, shows a similar pattern with an even more marked slowdown in growth (Table 1).¹

The failure of the manufacturing sector to create jobs was already a problem during the 1980s. This has intensified in the 1990s when over 300 000 jobs were lost in manufacturing. There is a popular perception that the increased openness of the South African economy has been a major cause of job losses and increasing levels of unemployment. A recent report claimed that,

The transformation of the South African economy from a protected and subsidized environment to one fully exposed to the vagaries of the market has hit South African workers hard (Leon Engelbrecht, ‘No one’s talking about SA’s Great Depression’ www.cosatu.org.za/news.html#news-e, quoting a report by Tradek economist Mike Schussler.)

However the fact that the period of increased globalization of the 1990s has coincided with declining formal sector employment does not necessarily prove a causal link — this needs further investigation. Before doing so, it is useful to consider the different causal mechanisms through which globalization can have an impact on the labour market.

2 A FRAMEWORK FOR ANALYZING THE IMPACT OF GLOBALIZATION ON LABOUR

Globalization or economic globalization, which is the narrow sense in which the term is being used here, can be defined as the integration of markets for goods, capital, technology

¹There is some debate in South Africa over whether in fact the recent experience is one of ‘jobless growth.’ There are substantial differences in estimates of employment between those based on the October Household Surveys and those from the SARB or DTI (Bhorat et al., 2002). The main reason for this is that the latter do not include the informal sector which has grown significantly in recent years. This paper focuses on formal sector employment. Since it has been estimated that the informal sector only accounted for 13 per cent of all manufacturing employment (Clarke et al., 2003, Table 6), this is unlikely to create a major distortion.
and labour. It is necessary to broaden the concept beyond just international flows of goods and factors, to also include the application of certain global ‘rules of the game’ which may be the result of formal international agreements or the requirements imposed by seeking to compete in the global market.

Figure 1 sets out a framework for analyzing the ways in which globalization in its various manifestations at the top of the diagram, impacts three key dimensions of the labour market—the level of employment, wages, and the quality of employment—at the bottom of the diagram.

Trade can have an effect on the rate of growth of output, its composition and the growth of productivity, which together affect the demand for labour. Foreign investment has a direct effect on economic growth, but it can also indirectly affect the composition of output, through its impact on trade flows, and productivity via its contribution to technology transfer. The latter may also have an effect on productivity even in the absence of FDI.

Migration is included for completeness, since it can have an important impact on the supply of labour in a country. It is not explicitly discussed in this paper since, given the very high levels of unemployment in South Africa, labour supply is not a constraint and employment levels are likely to be demand rather than supply determined.²

Two aspects of global rules are included in the diagram. The first operates through the effect of financial globalization on macroeconomic policies. Unlike FDI, short term capital movements are unlikely to have a direct employment effect, but they can have major indirect effects where they lead host governments to pursue restrictive monetary policies in order to maintain the value of the currency. This operates through the impact on the overall growth of the economy. The second aspect relates to the ways in which the pressures of global competition may lead to changes in the institutional framework governing the labour market to provide a more flexible labour force.

²One possible exception to this could be the case of skilled labour where out migration might lead to skill shortages.
Labour market outcomes are determined by demand and supply and the bargaining power of labour which is itself partly a reflection of supply and demand, but can also reflect institutional factors. Three types of outcomes are highlighted here. A major concern in the South African context is the resulting level of employment. A second aspect is the level of wages, which as indicated by the dotted line, may be co-determined with the level of employment. Finally the quality of employment which includes issues such as security of employment and working conditions need to be taken into account.

As presented in the diagram, there is an implicit assumption that labour is homogeneous. A more detailed picture would illustrate the impacts of globalization on different kinds of labour, either in terms of skill or gender. The lack of data on employment by gender in South Africa means that this aspect will not be considered in the paper, but where appropriate the impact of globalization on different skill categories will be discussed.

The analysis of the South African case begins in the next section with a discussion of the impact of trade on the demand for labour. The next two sections focus on the effects of FDI and technology transfer. These are followed by an analysis of macroeconomic policies and the way in which they have influenced the rate of growth of employment. Finally the factors determining the bargaining power of labour are considered. The concluding section summarizes the impacts of globalization on the South African labour market.

3 TRADE AND THE DEMAND FOR LABOUR

3.1 Trade and Employment

While the standard orthodox trade theory assumption is that developing countries have a comparative advantage in labour-intensive goods, there is considerable evidence that this is not the case for South Africa. Labour intensive products account for a relatively small proportion of South Africa’s manufactured exports (Tsikata, 1999, Table 8) and exports tend to be more capital intensive overall than either imports or domestic consumption (Alleyne and Subramanian, 2001; Bell and Cattaneo, 1997).

One implication of this, is that greater integration with the global economy, reflected in an increased share of exports and imports relative to output, would not tend to shift the composition of production in South Africa towards more labour-intensive sectors. Indeed quite the reverse would happen—more capital intensive sectors would grow and this would reduce the employment generating effect of production.

Given that South Africa’s comparative advantage is not in unskilled labour-intensive industries, what has the impact of greater openness on employment been in recent years? One way of estimating this is to use a growth accounting methodology which divides employment changes over a period of time into that attributable to changes in domestic demand, exports, import penetration and productivity.

A Chenery growth decomposition was applied to South African data for the period 1970–2001. The data for this exercise was obtained from the South African Standardized Industrial Database covering 45 economic sectors, of which 28 are in manufacturing.

[^3]: An Appendix detailing the decomposition methodology is available from the author.
[^4]: I am grateful to TIPS for making this data available. The sectors are defined in terms of the South African Standard Industrial Classification, v.5. For the manufacturing sector, the disaggregation corresponds to the 3-digit level of the International Standard Industrial Classification, Rev. 2.
Four periods have been identified in Table 2, the 1970s, the 1980s, 1990–95, which saw the start of the process of liberalization, and the period from 1996 onwards. In manufacturing, domestic demand and import substitution were the main contributors to employment in the 1970s, while increased exports began to have an impact in the 1980s. The situation changed dramatically with the opening up of the economy after 1990. Import penetration increased significantly between 1990 and 1995, reflected in an estimated loss of 125,000 jobs. This was partly offset by increased employment generated by exports of more than 100,000 but the overall impact of trade on manufacturing employment was negative in this period. At the same time, productivity growth increased leading to further reductions in jobs. After 1996, import penetration tended to stabilise, although there were still job losses as a result in manufacturing.

### Table 2. Decomposition of employment changes in manufacturing, 1970–2001

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand</td>
<td>385,815</td>
<td>94,184</td>
<td>122,545</td>
<td>−13,920</td>
</tr>
<tr>
<td>Exports</td>
<td>15,941</td>
<td>63,936</td>
<td>108,339</td>
<td>77,733</td>
</tr>
<tr>
<td>Import Penetration</td>
<td>111,631</td>
<td>14,318</td>
<td>−125,885</td>
<td>−5,879</td>
</tr>
<tr>
<td>Technology</td>
<td>−159,735</td>
<td>−69,135</td>
<td>−229,708</td>
<td>−254,503</td>
</tr>
<tr>
<td>Net trade</td>
<td>127,572</td>
<td>78,254</td>
<td>−17,546</td>
<td>71,854</td>
</tr>
<tr>
<td>Total</td>
<td>353,653</td>
<td>103,302</td>
<td>−124,710</td>
<td>−196,569</td>
</tr>
</tbody>
</table>

Source: Own elaboration from South African Standardized Industrial Database.

Four periods have been identified in Table 2, the 1970s, the 1980s, 1990–95, which saw the start of the process of liberalization, and the period from 1996 onwards. In manufacturing, domestic demand and import substitution were the main contributors to employment in the 1970s, while increased exports began to have an impact in the 1980s. The situation changed dramatically with the opening up of the economy after 1990. Import penetration increased significantly between 1990 and 1995, reflected in an estimated loss of 125,000 jobs. This was partly offset by increased employment generated by exports of more than 100,000 but the overall impact of trade on manufacturing employment was negative in this period. At the same time, productivity growth increased leading to further reductions in jobs. After 1996, import penetration tended to stabilise, although there were still job losses as a result in manufacturing.

### 3.2 Trade and Skill

As indicated earlier it is of interest to know how globalization is affecting the demand for different types of labour. Although there is no breakdown of employment by gender for South Africa, there is information on different skill levels. The Standardized Industrial Database provides employment data on three different categories of workers—highly skilled, skilled and semi- and unskilled. Highly skilled workers are those in professional, technical, managerial, executive and administrative occupations. Skilled workers include clerical, sales, transport and service occupations; farmers and farm managers; artisans, foremen and supervisors. The semi- and unskilled category includes all other workers. In fact it might be more appropriate to refer to the middle group as semi-skilled and the latter as unskilled.

Using the same methodology as previously, employment changes attributable to domestic demand, exports, import penetration and productivity changes were calculated for each of the three skill categories. Table 3 summarizes the impact of trade changes on the growth of employment. Exports have tended to increase the demand for highly skilled workers at a faster rate than for semi- and unskilled workers. Apart from the early 1990s when employment associated with trade declined as a result of increased import penetration, the net effect of trade has been greater for highly skilled workers than for semi- and unskilled labour, particularly in the period from 1996 (Table 3). This suggests that there is a skill bias in the changing pattern of trade in South Africa, a point that has

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5South African employment data for 1995 and 1996 are not comparable because in 1996 employment in the former homelands, which had not previously been included in the statistics, were included for the first time. This is the reason for breaking the decomposition into the period 1990–95 and 1996–2001.
also been made by Edwards (2001) and Bhorat (2000). Although not nearly as significant as skill biased technological change in terms of its impact on the demand for different skill categories, the changing composition of South African trade has tended to reinforce the bias towards more skilled labour.

### 3.3 Trade and Productivity

The third channel through which trade can affect employment is via productivity. One of the limitations of the decomposition type of analysis, carried out above, is the assumption that changes in productivity are independent of changes in openness. However, as Wood (1994, pp. 106–110) has argued, technological change is often a response to international competition and cannot therefore be treated as a totally independent factor. While the decomposition method takes into account changes in the product mix of output associated with trade, it does not allow for changes in employment coefficients as a result of technological changes induced by greater exposure to international competition. Thus a part of the reduction in employment attributed to technology, may in fact be an indirect consequence of increased trade.

One way of capturing these indirect effects of trade is to estimate labour demand functions econometrically. The standard method for estimating the demand for labour involves regressing employment on output and the cost of labour relative to capital. Studies of the impact of trade on employment tend to assume that import penetration or the share of output exported also affect employment through their impact on technology (cf. Greenaway et al., 1999; Milner and Wright, 1998).

Using panel data on 28 South African manufacturing industries between 1980 and 2001, the following equation was estimated.6

\[
\log L = a' \log Q + b' \log W + c'm + d'x
\]

Where \( L \) is employment, 
\( Q \) is output 
\( W \) is remuneration per head 
\( m \) is the share of imports in domestic demand 
\( x \) is the share of exports in total output.

\textit{A priori}, it is expected that output (\( Q \)) will have a positive impact on employment, while wages (\( W \)) will have a negative effect. The impact of the trade variables needs to be considered further. Since output enters the equation as an independent variable, the direct

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6This is the same data set that was used for the decomposition analysis.
effects of increased exports and imports displacing domestic production are captured by the variable Q. Thus the coefficient on import penetration (c) and on exports (d) capture the additional effect of imports on labour utilization, at a given level of output, which is the indirect effect via productivity.

Table 4 presents the results for our regression estimates using an industry fixed effects model. The variables have all been entered as first differences to avoid problems of serial correlation. Equation (1) uses pooled data; Equation (2) introduces industry fixed effects; and Equation (3) adds year dummies. As expected, output had a significant positive effect on employment in all three estimations. The elasticity of employment with respect to output is low at around 0.15. The wage elasticity of labour demand is also low at −0.06 and is only significantly different from zero when industry and time dummies are included in the equation.

Import penetration was introduced as a one year lagged variable, on the grounds that the effect of import competition on employment was unlikely to be reflected in a contemporaneous drop in employment since rationalization would require re-organization of production and/or new investment. This variable was found to have a negative effect on employment, as expected, and significant, particularly when time dummies were introduced.

Table 4. Determinants of manufacturing employment, 1980–2001

<table>
<thead>
<tr>
<th></th>
<th>Eq. 1</th>
<th>Eq. 2</th>
<th>Eq. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log Q</td>
<td>0.158*</td>
<td>0.150*</td>
<td>0.157**</td>
</tr>
<tr>
<td>Log W</td>
<td>−0.066</td>
<td>−0.062</td>
<td>−0.057***</td>
</tr>
<tr>
<td>m(−1)</td>
<td>−0.002**</td>
<td>−0.002**</td>
<td>−0.003*</td>
</tr>
<tr>
<td>x (−1)</td>
<td>−0.002***</td>
<td>−0.001</td>
<td>0.000</td>
</tr>
<tr>
<td>Adj. R-squared</td>
<td>0.051</td>
<td>0.13</td>
<td>0.21</td>
</tr>
<tr>
<td>F-statistic</td>
<td>10.9</td>
<td>37.2</td>
<td>8.93</td>
</tr>
<tr>
<td>DW statistic</td>
<td>1.733</td>
<td>1.966</td>
<td>2.082</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Eq. 4</th>
<th>Eq. 5</th>
<th>Eq. 6</th>
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</thead>
<tbody>
<tr>
<td>Log Q</td>
<td>0.246*</td>
<td>0.227*</td>
<td>0.224*</td>
</tr>
<tr>
<td>Log W</td>
<td>−0.087**</td>
<td>−0.088***</td>
<td>−0.083*</td>
</tr>
<tr>
<td>m(−1)</td>
<td>−0.002**</td>
<td>−0.002**</td>
<td>−0.002*</td>
</tr>
<tr>
<td>x (−1)</td>
<td>−0.001</td>
<td>−0.001</td>
<td>0.000</td>
</tr>
<tr>
<td>i(−1)</td>
<td>−0.004*</td>
<td>−0.004*</td>
<td>−0.004*</td>
</tr>
<tr>
<td>Adj. R-squared</td>
<td>0.11</td>
<td>0.15</td>
<td>0.23</td>
</tr>
<tr>
<td>F-statistic</td>
<td>14.3</td>
<td>33.4</td>
<td>9.49</td>
</tr>
<tr>
<td>DW statistic</td>
<td>1.813</td>
<td>2.012</td>
<td>2.128</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th></th>
<th>Eq. 7</th>
<th>Eq. 8</th>
<th>Eq. 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log Q</td>
<td>0.178*</td>
<td>0.167*</td>
<td>0.173*</td>
</tr>
<tr>
<td>Log W</td>
<td>−0.123*</td>
<td>−0.116*</td>
<td>−0.102*</td>
</tr>
<tr>
<td>m(−1)</td>
<td>−0.003*</td>
<td>−0.003*</td>
<td>−0.003*</td>
</tr>
<tr>
<td>x (−1)</td>
<td>−0.002***</td>
<td>−0.001</td>
<td>0.000</td>
</tr>
<tr>
<td>LogW*m(−1)</td>
<td>−0.023*</td>
<td>−0.022*</td>
<td>−0.018*</td>
</tr>
<tr>
<td>Adj. R-squared</td>
<td>0.08</td>
<td>0.15</td>
<td>0.22</td>
</tr>
<tr>
<td>F-statistic</td>
<td>12.8</td>
<td>32.9</td>
<td>9.2</td>
</tr>
<tr>
<td>DW statistic</td>
<td>1.758</td>
<td>1.992</td>
<td>2.086</td>
</tr>
</tbody>
</table>

*Significant at 1 per cent level.
**Significant at 5 per cent level.
***Significant at 10 per cent level.

In contrast, the lagged share of output exported, although having the expected negative sign was not significantly different from zero, except very marginally at the 10 per cent level when using pooled data.

The finding that import penetration has a negative effect on employment is consistent with the expectation that competition from imports will lead firms to rationalize their use of labour. The fact that the share of output exported is not a significant influence on employment is more puzzling. However it has been noted elsewhere that few South African firms are really export oriented. Although many firms engage in exports, they tend to export a relatively small proportion of their output, far less, for example, than in the East Asian countries (Chandra et al., 2001, p. 22). Thus for most manufacturing firms in South Africa, their main concern is likely to be competitiveness in the domestic market and so the share of an industry’s output which is exported is unlikely to have such a major impact on labour utilization.

The view that import competition has reduced employment through increased productivity is supported by more detailed studies at the firm level. Edwards (2004) using data from two firm surveys (the National Enterprise Survey and the Greater Johannesburg Metropolitan Area Survey) finds a negative relationship between trade liberalization and employment amongst large firms (but not small firms). A study of the South African textile industry, one of the industries most affected by import competition, also found significant increases in productivity and reductions in employment (Roberts and Thoburn, 2004). These studies also show substantial increases in productivity and reductions in employment amongst exporting firms.

How large is the effect of increased import penetration on employment in the South African case? Given that the import variable enters the equation in a semi-log form, it is not possible to read off the impact directly from the equation. In 1990, the average import penetration in South African manufacturing was 16 per cent and by 2001, this had increased to 26 per cent. Holding output and wages constant, our preferred estimating equation implies that a rise in import penetration of this magnitude would reduce employment by almost 50,000 from an initial employment level in manufacturing in South Africa in 1990 of 1.5 million.7

How significant is this figure? In the previous section, it was estimated that the direct effects of trade on employment over the two periods 1990–95 and 1996–2001 came to slightly over 50,000 new jobs (see Table 2), so that the negative indirect effects on employment from increased import competition almost offset the positive effects from the growth of net exports. On the other hand it was also noted in Table 2 that increases in productivity in manufacturing in South Africa in the 1990s led to almost half a million fewer jobs than would otherwise have been the case. In so far as the estimated indirect effects of import penetration can be seen as contributing to this technology induced decline in demand for labour, its effect is relatively small, accounting for only about 10 per cent of the overall fall in demand.8

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7This was calculated by applying the coefficient on the import penetration variable (−0.003) to the increase in import penetration (10 percentage points) and subtracting this from the log of employment in 1990 (around 1.5 million) to calculate the employment level that would have occurred in 2001 if all other variables had remained unchanged.

8Edwards (2004), on the basis of firm data, also concludes that import competition explains only part of the reduction in employment in the 1990s, although he warns that the exclusion of firms which have disappeared would lead to an underestimate of the total effect.
4 FOREIGN DIRECT INVESTMENT AND EMPLOYMENT

A recent survey concluded that economic theory provides no unambiguous conclusions regarding the impacts of FDI on labour markets, so that this is essentially an empirical question (Brown et al., 2003). Unfortunately, it is also difficult to establish the empirical consequences of FDI for labour, since there are no agreed methodologies for estimating impacts and the results obtained depend critically on the counter-factuals that are assumed (Baldwin, 1995). In the South African case analysis is further constrained by the relative paucity of data, compared to that available on trade flows, and also compared to the information available on foreign investment in other countries. In the light of this, the analysis presented here of the impact of foreign investment is much less detailed than that of trade, and is meant to be suggestive rather than conclusive.

Part of the difficulty of generalizing about the impact of FDI on labour markets in host countries is that foreign investment can take a variety of different forms and these will influence the outcomes. First, in terms of mode of entry, it is important to distinguish between ‘greenfield’ investment where the foreign firm establishes a new plant, and mergers and acquisitions where it takes over an existing operation.9 Where foreign investment involves simply a change of ownership, then there can be no assumption that employment has been created as a result.

While in the short term, the mode of entry is a significant determinant of the employment impact of FDI, in the longer term differences in impact are associated with the motivations for investment (UNCTAD, 2000, Ch. VI). It is common in the literature to distinguish four motives for FDI. The first, most traditional kind is resource seeking where firms invest to extract or process locally available raw materials. Secondly there is market seeking investment which is motivated by the desire to supply a local (or regional) market. The third category is efficiency seeking investment which is aimed at taking advantage of low cost production sites to supply world markets. In developing countries, this has mainly involved labour-intensive production using cheap local labour. Finally there is strategic FDI where the investor wishes to acquire resources or capabilities which will strengthen its overall strategic position. In terms of employment creation, particularly of unskilled jobs, it is efficiency seeking investment that is likely to have the greatest positive impact.

Before considering the form of FDI in South Africa, it is useful to begin by looking at the scale of inward investment. As noted earlier, this fell significantly during the 1980s as a result of sanctions and public pressure on corporations in North America and Europe and political instability. Between 1984 and 1988 over two hundred US firms withdrew from South Africa and about 20 per cent of all British firms also left during this period (Gelb and Black, 2000). Inward investment increased in the 1990s, particularly following the transition in 1994.

Despite this recovery, the high expectations of significant inflows of investment following the political transition in South Africa have not been realized. Table 5 shows that FDI during the 1990s made a relatively small contribution to total investment in the economy, with the exception of 1997, when the partial privatization of state assets including Telekom and the Airports Company, boosted inflows.10 FDI in South Africa

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9See UNCTAD (2000), Ch. VI for a discussion of the significance of this distinction for employment.
10The large apparent inflow of FDI to South Africa in 2001 was significantly affected by the restructuring of De Beers which became a subsidiary of Anglo American which was registered in London.
Globalization is reflected not only in increased inflows of FDI but can also result in greater outward flows. This is an issue in South Africa since, particularly with the ending of sanctions, South African firms have been able to expand their activities overseas, especially in the rest of Africa. Data from the South African Reserve Bank shows that in eight out of the eleven years between 1990 and 2000, outward investment from South Africa exceeded inward flows (Table 5). Since the relevant factor in terms of employment is the net inflow of investment, this suggests that the 1990s did not see a positive contribution from increasing capital flows.

A further factor influencing the impact of FDI on employment, as indicated earlier, is the mode of entry by foreign firms. There is strong evidence that a significant part of FDI in South Africa in the 1990s involved mergers and acquisitions, both of local firms and to an important extent, newly privatized parastatals. Gelb (2003, p. 18) finds that 45 per cent of a sample of new foreign investment in South Africa during the 1990s involved acquisitions. Since greenfield entrants tended to be more prominent amongst small firms, a larger share of the value of investment was through acquisitions. This is confirmed by Hesse (1999, Table 4) who estimates that 60 per cent of FDI between 1994 and 1999 was through mergers and acquisitions, with only 16.7 per cent accounted for by new investment and 17.3 per cent by expansion of established foreign firms.

Turning to the type of FDI, there is considerable evidence that the main motive for foreign investors in South Africa is market access. On the basis of their own interviews and the NES survey, Hawkins and Lockwood (2000) estimate that 58 per cent of foreign investors covered were market seeking, and only 24 per cent efficiency seeking. Surveys by Gelb (2003) and Jenkins and Thomas (2002) come to similar conclusions regarding the importance of market factors as the main determinant of FDI in South Africa.

Another factor which has limited the contribution of FDI to employment in South Africa is the sectoral distribution of inward investment. Most of the leading sectors for FDI in the 1990s were relatively capital-intensive sectors such as Telecommunications and Oil and Energy (Gelb and Black, 2000, Table 4, based on Business Map data). Only

Table 5. Inward and outward FDI and gross fixed capital formation, 1990–2003 (mn. Rand)

<table>
<thead>
<tr>
<th></th>
<th>Inward</th>
<th>Outward</th>
<th>Net Flow</th>
<th>GFKF</th>
<th>FDI/GFKF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>-203</td>
<td>71</td>
<td>-274</td>
<td>55485</td>
<td>-0.4%</td>
</tr>
<tr>
<td>1991</td>
<td>685</td>
<td>574</td>
<td>111</td>
<td>56954</td>
<td>1.2%</td>
</tr>
<tr>
<td>1992</td>
<td>10</td>
<td>5524</td>
<td>-5514</td>
<td>58255</td>
<td>0.0%</td>
</tr>
<tr>
<td>1993</td>
<td>33</td>
<td>974</td>
<td>-941</td>
<td>62601</td>
<td>0.1%</td>
</tr>
<tr>
<td>1994</td>
<td>1348</td>
<td>4388</td>
<td>-3040</td>
<td>73045</td>
<td>1.8%</td>
</tr>
<tr>
<td>1995</td>
<td>4502</td>
<td>9059</td>
<td>-4557</td>
<td>87042</td>
<td>5.2%</td>
</tr>
<tr>
<td>1996</td>
<td>3515</td>
<td>4485</td>
<td>-970</td>
<td>100632</td>
<td>3.5%</td>
</tr>
<tr>
<td>1997</td>
<td>17587</td>
<td>10831</td>
<td>6756</td>
<td>113221</td>
<td>15.5%</td>
</tr>
<tr>
<td>1998</td>
<td>3104</td>
<td>9841</td>
<td>-6737</td>
<td>125333</td>
<td>2.5%</td>
</tr>
<tr>
<td>1999</td>
<td>9184</td>
<td>9659</td>
<td>-475</td>
<td>122162</td>
<td>7.5%</td>
</tr>
<tr>
<td>2000</td>
<td>6158</td>
<td>1878</td>
<td>4280</td>
<td>131984</td>
<td>4.7%</td>
</tr>
<tr>
<td>2001</td>
<td>58404</td>
<td>-27359</td>
<td>85763</td>
<td>143048</td>
<td>40.8%</td>
</tr>
<tr>
<td>2002</td>
<td>7958</td>
<td>-4195</td>
<td>12253</td>
<td>167662</td>
<td>4.7%</td>
</tr>
<tr>
<td>2003</td>
<td>5768</td>
<td>5440</td>
<td>328</td>
<td>190256</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Source: South African Reserve Bank.
the Food, Beverages and Tobacco industry and Hotel, Leisure and Gaming among the top
ten sectors are likely to have had significant employment creation effects.

Overall the aggregate evidence suggests that ‘Foreign investment by firms entering
South Africa for the first time has had little impact either on employment growth or as a
supplement to domestic savings via capital inflows’ (Gelb, 2003, p. 69). Evidence at the
firm level also suggests that established foreign-owned firms have not made a major
contribution to job creation. Employment growth amongst foreign subsidiaries was lower
than for domestic firms between 1994 and 1998 (Edwards, 2004, p. 58). In one survey, it
was found that over half the largest foreign enterprises which had expanded their
operations in South Africa had stable or declining employment levels, as a result of
rationalization or improved technology (Jenkins and Thomas, 2002, p. 34). It has also been
found that foreign owned firms are more capital-intensive than domestically owned firms
and that they tend to employ more skilled relative to unskilled workers (Edwards, 2004,
Table 5). Thus not only is foreign investment likely not to generate very many jobs, but it is
also probable that a significant number of the jobs which are required, will be filled by
skilled rather than unskilled workers.

5 TECHNOLOGY TRANSFER AND EMPLOYMENT

One of the main potential gains from globalization is the spread of technology inter-
nationally. However, there are concerns that such technology transfer may be biased
against the absorption of unskilled labour. Thus increased access to foreign technology
might have a negative impact on employment.

There is a lack of data at the sectoral level, with which to measure the extent of
technology transfer to South Africa. One potential measure is the level of royalty
payments abroad by firms based in South Africa. This is reported in the 1996 Census of
Manufacturing but unfortunately it is only available for one year. As a result it cannot be
used in the fixed effects model since it is invariant over time. When the ratio of royalty
payments to output in 1996 was used with pooled data, it was not significant in explaining
employment.

An alternative proxy for technology transfer is the share of output accounted for by
imported intermediate inputs. The thought here is that industries or firms, which rely
heavily on imported inputs, are also likely to have significant technology imports. The
regressions reported in Table 4 were therefore run again with the inclusion of an additional
variable (i) that measures the ratio of intermediate imports to output at the industry level.
As in the case of the share of output exported and the share of imports in domestic demand,
a one year lag was introduced on the grounds that the effects of an increased reliance on
imported technology would not be felt immediately. Since the data is available on an
annual basis, pooled, fixed effects and fixed effects with year dummies regressions could
be estimated (see Table 4, Eq. 4–6).

As expected the variable measuring the share of imported inputs has a negative impact
on the level of employment and this is statistically highly significant. In so far as this is a
good proxy for reliance on imported technology then this result supports the view that
increased technology transfer tends to reduce the level of employment in South Africa.
The results for the other independent variables are not much altered by the inclusion of the
additional variable, import competition remaining a significant negative factor while the
share of output exported is not significant. The significance of wages as a determinant of
employment is increased.
Further support for the view that technology transfer may have had a negative effect on employment in South Africa is provided by a firm level study by Lawrence Edwards. Using the share of imports in raw material purchases as a proxy for technology transfer, he finds that there is a negative relationship with the demand for unskilled labour and a positive correlation with skill intensity (Edwards, 2004, Table 2). This supports the view that technology transfer tends to be skill biased and has a depressing effect on employment.

6 MACRO-ECONOMIC POLICIES AND GROWTH

One of the factors that has limited employment creation in South Africa in recent years has been the slow overall growth of the economy and particularly the slow growth of the manufacturing sector. This is reflected in the decomposition analysis presented above in Table 2 which shows that the contribution of domestic demand to employment between 1996 and 2001 was actually negative.

One explanation of the decline in domestic demand is the change in government policy which took place with the adoption of the Growth, Employment and Redistribution (GEAR) macroeconomic strategy in 1996 (COSATU, 2000, Ch. 6; UNDP, 2003, pp. 62–5; Weeks, 1999). The ANC government committed itself to ‘trade and industrial policies [which] aim to promote an outward-oriented industrial economy, integrated into the regional and global environment and fully responsive to market trends and opportunities’ (GEAR quoted in Hayter et al., 2001, p. 13). Two of the key features of this strategy were the independence of the South African Reserve Bank which pursued an aggressive anti-inflationary monetary policy through high real interest rates, and a conservative fiscal policy to contain the size of the government as measured by the ratio of the Public Sector Borrowing Requirement to GDP (Gibson and Van Seventer, 2000, p. 159).

Although GEAR was not the result of direct intervention by the IMF and the World Bank, nevertheless many commentators see it as a local response to the demands imposed on South Africa by increased integration with the global economy.11 It specifically argued that the key to growth was to improve the country’s international competitiveness through attracting foreign capital, cutting budget deficits and restraining wages. GEAR has not been a success in terms of promoting growth and it can be argued that in fact the priority given to macro-economic stability has tended to have a dampening effect on growth. So, to the extent that employment growth reflects the slow rate of growth of the economy, globalization can be seen as having had a negative indirect effect through the macro strategy that was adopted in the mid-nineties.

7 GLOBALIZATION AND THE BARGAINING POWER OF LABOUR

7.1 Elasticity of Demand for Labour

Rodrik (1997) has argued that globalization allows firms to substitute workers in different countries for each other and that this will increase the wage elasticity of demand for labour within countries. One consequence of such an increase in elasticity is a reduction in the bargaining power of workers. Has this been the case in South Africa in recent years?

11For a discussion of the factors that led to the change from the more developmentalist strategy represented by the Reconstruction and Development Program (RDP) on which the ANC fought the 1994 election to GEAR, see Habib and Padayachee (2000) and Marais (2001), Ch 4 and 5.
The elasticity of demand for labour has been a controversial issue in South Africa because of the debate over the causes of high and rising unemployment in the country (Standing et al., 1996, Ch. 6.5). Elasticity estimates have varied from −0.25 to −0.73 (Fields et al., 1999; Loewald, 2001), however it is difficult to compare these studies because of differences in methodology and in the time period covered. One study which does look at the wage elasticity of employment in different time periods and from which it is therefore valid to make comparisons, is that of Fields et al. They find that elasticities in the private formal sector increased from −0.11 in the 1980s to −0.35 between 1990 and 1993, and −0.52 in 1994–8. They also found increasing elasticities in key sectors, including mining, manufacturing and construction. Since the South African economy began to liberalize in the early 1990s, and became much more integrated with the global economy after 1994, this finding is consistent with Rodrik’s view that globalization will make the demand for labour more elastic.

In order to test the hypothesis that increased import penetration has an impact on the elasticity of demand for labour more formally, the regression model used previously was modified to include an interaction term between wages and import penetration.\(^{12}\) The revised equation was of the form:

\[
\log L = a^* \log Q + b^* \log W + c^* m + d^* x + e^* \log W^* m
\]

Once more the equation was estimated in terms of differences. As before, the three equations (Table 4, Eq. 7–9) refer to pooled data, fixed effects and fixed effects with year dummies, respectively.

In all three equations the interacted term between wages and (lagged) import penetration is highly significant with the expected negative sign. In other words, an increase in import penetration leads to a more elastic demand curve. Compared to the previous estimates, the effect of wages on employment is also much more significant Other things being equal, an increase in import penetration of ten percentage points, as occurred between 1990 and 2001, would increase the wage elasticity of demand for labour by about (−)0.2. Fields et al. (1999, Table 1.7) calculated that the elasticity of demand in manufacturing increased from −0.06 in the early 1990s to −0.45 in the late 1990s. Our estimates suggest that a substantial part of this increase can indeed be explained by the kind of effects of globalization discussed by Rodrik.

One of the implications of a more elastic demand for labour is that it will weaken the bargaining power of workers. Given that the South African labour market is generally recognized to be far from perfectly competitive, this is likely to have a negative impact on the ability of labour to share in rents generated in industry. This is reinforced by the slow growth of demand for labour relative to the growing supply, reflected in rising levels of unemployment.

7.2 The Institutional Framework

The impact on workers depends not only on the supply and demand for labour but also on the institutional framework of industrial relations. The general trend worldwide has been towards deregulation of labour markets and an increased emphasis on ‘flexibility,’ again

\(^{12}\)Since the share of output exported did not have a significant direct effect on employment, it was not considered worthwhile interacting wages with the export variable.
linked to a perceived need for international competitiveness. However, because of its political transformation in the 1990s with the ending of apartheid, and the key role played by the labour movement in the liberation struggle, South Africa has bucked this trend.

The ANC government introduced new employment legislation in the mid-1990s, particularly the Labour Relations Act (1995) and the Basic Conditions of Employment Act (1997) which represented a significant positive change for labour in the regulation of industrial relations, despite some weaknesses, for example in monitoring and enforcement. The National Economic Development and Labour Council (NEDLAC) was created in 1995 as a tripartite forum between government, employers, and trade unions, to review legislation before it went before Parliament. There was also a significant growth in trade union membership during the 1990s.

But despite this, the pressures of globalization were felt in the late 1990s and the Department of Labour became increasingly interested in ensuring that employers’ needs were accommodated in the legislation. In 1999 it launched a review of labour regulations and after a process of consultation came up with a series of amendments to the LRA and the BCEA. These amendments, particularly those to the BCEA, reflected the increased confidence of business in relation to the government (Clarke et al., 2003). Although labour was able to block many of the pro-business amendments, on the ground there has been a significant growth of atypical forms of employment, such as casual labour, independent contractors and various forms of outsourcing/sub-contracting, which are not covered by the legislation.

It is impossible to disentangle the impact of local factors and globalization on the framework of industrial relations in South Africa, but the direction of the impact of the demands of global competition is clearly to press for a system that is more favourable to the needs of capital.

8 CONCLUSION

This review of the impact of globalization on the South African labour market has identified a number of channels through which the effects operate. It suggests that globalization is only one of the factors that have affected the labour market but in so far as they can be isolated, it suggests that the impacts have been unfavorable for labour.

Globalization has had a negative effect on the level of employment in South Africa, particularly as far as unskilled workers are concerned. Unlike those Asian countries which have specialized in exports of labour intensive manufactures and thus generated substantial employment, in South Africa greater openness has had a very limited direct effect on jobs, while the indirect effects as a result of rationalization in response to competition from imports, and technology transfer has been to promote skill-biased technological change. The limited success of South Africa in attracting FDI, which has tended to go into capital-intensive sectors, and the significant outflows of capital which globalization has made possible, means that openness to foreign capital has not created new jobs.

Globalization has not had such negative effects on wages. Formal sector wages have risen during the 1990s suggesting that the positive effects of labour legislation and the growth of trade unions has more than offset globalization pressures during this period. However this is due to the particular context of post-apartheid South Africa which meant that it has moved in the opposite direction to most developing countries during the 1990s. Moreover, if the elasticity of demand for labour is increasing as a result of globalization, as
seems likely, this has important implications for labour. Specifically, it means that the cost of wage increases, in terms of reduced employment, is also growing.

Finally it has been shown that globalization, together with other factors, has had a negative effect on the quality of employment in South Africa. It is difficult to say to what extent Globalization has been a cause of the growth of atypical forms of employment, but the pressures for a more flexible labour market which it reflects, is seen as a requirement for competing in global markets.

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