TRADE UNION RESPONSES TO GLOBALIZATION

A review by the Global Union Research Network

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INTERNATIONAL LABOUR OFFICE • GENEVA

GLOBAL UNION RESEARCH NETWORK

V. Schmidt (ed.)
Trade union responses to globalization: A review by the Global Union Research Network
Geneva, International Labour Office, 2007

Globalization, multinational enterprise, workers rights, trade union rights, trade union role, international trade union, developed countries, developing countries
03.02.3

ISBN 978-92-2-119860-4

ILO Cataloguing in Publication Data

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address or by email: pubvente@ilo.org

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Typeset by Magheross Graphics, France & Ireland *www.magheross.com*
Printed in *(country)*

TRADE AND DEVELOPMENT IN SOUTH AFRICA

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Introduction

Debates on trade have generally failed to question the assumption that free trade supports development. For its part, the international labour movement has essentially argued that core labour standards are necessary to prevent a race to the bottom. But if trade leads, not to development, but to worse poverty and unemployment, core labour standards will not do much to improve conditions for workers.

The South African experience demonstrates both that trade in itself is not necessarily developmental, and that labour rights alone do not ensure better pay. The opening of the economy following the ending of apartheid in the early 1990s was associated with both growing exports and imports and soaring unemployment – in 2007 close to 30 per cent.[1] In these circumstances, although the democratic state introduced strong labour rights, workers saw falling pay and continual pressure on their conditions.

The main reason for extraordinarily high unemployment lay in the structure of the economy developed under apartheid. Given this economic trajectory, the State's efforts to encourage increased access to foreign markets, especially with countries in the South, tended to undermine light industry. They increased opportunities principally for capital-intensive sectors, notably minerals, chemicals and car manufacture, which did not create much employment.

This experience points to the need for a strong structural policy to support sectors that can create employment, especially agriculture, light industries and

[1] This figure does not include those who would immediately take paid employment, but are too discouraged actively to seek work. Inclusion of these people as unemployed raises the unemployment rate to 40 per cent.

services. That, in turn, requires a trade policy that encourages and supports employment-creating activities. The challenge for labour becomes to engage both within South Africa in defining more specific policy measures and internationally to ensure that international and bilateral arrangements leave space for measures to support specific sectors.

This paper first reviews the central challenges facing the South African economy, above all, those of unemployment and growth. It then looks at the impact of trade on poverty and employment. The third section outlines the nature of labour rights and assesses the trends in workers' pay and conditions. Finally, we consider the implications for the labour movement's claims regarding trade.

Unemployment and economic growth in South Africa

From the first democratic elections in 1994, the unemployment rate rose steadily from 16 per cent to around 30 per cent in 2002. In the early 2000s, it declined to just over 25 per cent. In these circumstances, it is not surprising that inequalities related to class, race and gender persisted and possibly even deepened. The former homeland areas – the reserves where about half of Africans were legally confined under apartheid – lagged far behind the rest of the country. Despite the emergence of a small but vibrant black elite in the state and the private sector, most Africans continued as poorly paid workers, or scraped out an existence as hawkers or subsistence farmers in the former homeland areas (see UNDP, 2003; PCAS, 2003).

The combination of high unemployment and, in some sectors, very poor pay meant that South Africa remained amongst the most inequitable economies in the world. Soaring unemployment was associated with relatively slow growth, particularly in the late 1990s. South Africa's economic performance did not match up to other middle-income countries for most of the period after independence.

In the mid-2000s, the economy began to grow much more rapidly, at over 3 per cent a year. This upswing largely reflected a short-term speculative inflow of foreign capital combined with a relaxation in fiscal and monetary policy. It was associated with a substantial increase in the balance of trade deficit.

In this period, retail trade and construction accounted for well over half of all employment growth. This pattern reflected the roots of growth in cheap imports and government investment. The sustainability of the expansion and the resulting jobs thus remained rather dubious, since it depended largely on maintenance of high real interest rates by international standards combined with strong prices for mining products.

In short, while the South African State made considerable progress in overcoming the legacy of apartheid, results did not match up to the (admittedly very optimistic) expectations held by much of the population before 1994.

Shortcomings emerged primarily in the inability to overcome the interlinked challenges of high unemployment and massive inequalities in incomes and assets. The question here is how the opening of the economy from the early 1990s contributed to this outcome.

Trade, employment and poverty

To understand the impact of trade on poverty and employment, we can look at its effects on:

- employment;
- the structure of ownership;
- government's ability to provide services; and
- the prices of commodities needed by low-income consumers.

The impact on employment and household incomes depends largely on the structure of trade. If it is dominated by capital-intensive sectors, even a substantial improvement in exports may do little to alleviate poverty. Moreover, if imports are dominated by light industry, firms may respond by mergers and retrenchments in order to take advantage of economies of scale to compete with imports.

The effects on the public treasury are even more ambiguous. If trade stimulates overall growth, the government should have more resources available. But increased economic openness is usually associated with greater freedom for capital flows. Many governments respond by adopting conservative fiscal and monetary policies in an effort to attract and retain speculative inflows. That, in turn, can lead to substantial cuts in anti-poverty programmes and in public-sector employment. Moreover, it may have a contractionary impact on the economy as a whole.

Finally, the effects of trade on consumption depend largely on income distribution. The poor usually rely on imports for only a small share of their needs. If labour-intensive imports displace local producers, the net benefits for the poor may be limited indeed.

In the event, analysis of South Africa's trade indicated that it did little to create jobs or alleviate poverty. First, exports remained concentrated in highly capital-intensive sectors, while imports competed heavily with light industry. Second, the Government cut the budget through the late 1990s explicitly to retain foreign portfolio investment. This limited its ability to provide services for the poor. Finally, concentrated retail networks generally did not pass on the benefits of cheaper imports of food and clothing to consumers.

For trade to assist in alleviating South Africa's overwhelming unemployment problem, a much more differentiated approach was required. Simply growing trade on the existing trajectory might help maintain macroeconomic stability, but would not do much to create employment, increase equality or enhance economic diversification. That would require, in particular, much more coherent and substantial efforts to support relatively labour-intensive sectors.

To understand the impact of trade on economic structure requires a brief overview of the historic growth path of the South African economy. The subsequent section explores how trade affected poverty and employment.

The South African growth path

Historically, the South African economy was focused on extractive industries. This structure formed a central factor behind persistent high unemployment (see Makgetla, 2004a). The formal sector, historically centred on minerals and, more recently, heavy chemicals and automobile manufacture, are relatively capital intensive, and cannot create employment on a large scale even when expanding. Moreover, this kind of capital-intensive industry generally fosters highly concentrated ownership.

Largely to generate cheap labour for the mines and white-owned estates, the colonial and later apartheid State deprived the majority of the population of productive assets and opportunities. From the turn of the 20th century until 1994, Africans in particular – over three-quarters of the population – were largely denied access to land, education, training, and formal-sector facilities such as the banking sector and retail marketing. As a result, most people had little scope for earning a living outside of paid jobs in the formal sector.

Shifts in economic structure since 1994 did little to remedy these problems. The main changes were:

- In the minerals sector, a move from gold to platinum mining, plus growth in aluminium, ferro-chrome and steel refining.
- In manufacturing, faster growth in heavy chemicals and automobile manufacture, with relative stagnation in light industry.
- Rapid expansion of business services, in value terms in finance and in employment in security and retail, with a decline in the public sector.
- A decline in construction through the 1990s, followed by very rapid growth from the early 2000s, initially for a high-income housing boom and, from the mid-2000s, for public investment projects.
- Rising capital intensity and substantial job losses in commercial farming.

The trends in the 1990s were associated with a shift toward greater capital intensity, so that increases in output and exports did not create employment on the necessary scale. Between 1998 and 2002, formal employment grew only about 1 per cent a year, or about half as fast as the population.

Labour absorption picked up from 2002, mostly because employment rose in construction, retail and security services. These sectors were highly cyclical, however, and growth could slow or even reverse if overall economic expansion declined.

Various indicators showed the trend toward a more capital-intensive economy through the early 2000s. The fastest growth in output occurred in the most capital-intensive sectors, led by telecommunications and basic non-ferrous metals. In contrast, light industry showed relatively little expansion.

As might be expected, the result of this growth pattern was a shift in the production structure toward heavy industry and away from light industry. The share of agriculture, gold mining, light manufacturing, public and most private services has declined. The winners were steel, platinum and aluminium refining; heavy chemicals; automobile; communications; and finance – all of which were relatively capital-intensive.

In short, growth since 1994 did little to diversify the economy. Instead, it was associated with continued dominance by mining and the heavy industries favoured under apartheid. This pattern resulted largely from the way South Africa integrated with the world economy. The expansion in retail, construction and security services after 2002 reflected the commodity-based boom rather than a long-term redirection of the economy.

The impact of trade on employment and poverty

Before 1989, when Nelson Mandela was released from prison, South Africa was relatively isolated from world trade, in part because of protectionist policies, in part because of resistance to apartheid and the disinvestment campaign. This situation changed rapidly from the early 1990s, as anti-apartheid sanctions disappeared, the political situation stabilized, and the country joined the General Agreement on Tariffs and Trade (GATT, now the WTO) at the cost of substantial tariff cuts.

The democratic government – or at least the Department of Trade and Industry (DTI) – embraced the philosophy of free trade with enthusiasm. According to its Integrated Manufacturing Strategy, "…the purpose of reforms [after 1994] was clearly aligned towards an opening up the economy, enhancing competitiveness, improved access to economic opportunities and greater geographic equity [within the country]" (DTI, 2002).

An initial belief that free trade in itself would stimulate growth gave way, by the 2000s, to a competitiveness strategy. In this approach, the State seeks to encourage a more efficient economy by improving infrastructure and skills, while maintaining a fairly narrow focus on promoting exports as the driver for growth (see DTI, 2002; PCAS, 2003). In 2004, the Government's medium-term Programme of Action emphasized improving infrastructure, cutting input costs, encouraging higher investment and bringing about "the earliest possible conclusion of trade agreements with Mercosur, EFTA, the US, India and China" (South African Government, 2004).

The opening of the economy saw rapid growth in South African trade. The spurt in imports in 2003 and 2004 reflected the strong appreciation of the rand. Between 1995 and the third quarter of 2004, in real terms, exports rose 37 per cent and imports by 43 per cent.

Despite the growth in volume, the structure of trade seemed unlikely to generate employment on the necessary scale. Specifically, South Africa's exports remained geared primarily toward relatively capital-intensive sectors – notably minerals, heavy chemicals and automobile manufacture. Expansion in these sectors did little to contribute to employment creation or more equitable ownership and control. Meanwhile, given relatively slow economic growth, increased imports of labour-intensive goods and services tended to displace domestic employment.

Very strong regional differences in the structure of trade also emerged. The Southern African Development Community (SADC) and the EU formed key markets for South African exports of labour-intensive products, while heavy industry dominated sales to China. Moreover, by 2004 China was fast becoming the dominant source of labour-intensive imports by South Africa.

South Africa's exports were considerably more capital intensive than its imports. Half of exports were relatively capital intensive, with R500,000 in capital for each employee. In contrast, just under half of imports were relatively labour intensive, with under R170,000 invested per job. This pattern suggests that increased exports did little to create employment directly, while rising imports displaced jobs on a larger scale.

The dominance of capital-intensive exports declined in the late 1990s, but regained some ground from 2002. The average capital intensity of South African exports was virtually the same in real terms in 2003 as it was in 1994.

In contrast, the bulk of South African imports were relatively labour intensive, although the share of highly labour-intensive imports declined from the late 1990s through the early 2000s. The average capital intensity of imports, excluding petroleum, rose by just over a quarter between 1994 and 2003.

Exports were capital intensive because they were dominated by minerals, automobile and heavy chemicals (largely derived from coal mining, as a result of heavy state investments in an oil-from-coal process before 1994). Between 1994 and 2003, as a percentage of total exports, automobile exports rose at the cost of mining and minerals, but little else changed. In contrast, almost half of all imports were machinery and equipment, autos and appliances of various kinds. Imports of transport equipment rose almost as fast as exports by the auto industry.

In short, the overall pattern of trade remained essentially characterized by exports of resource-based goods, with the exception of the automobile industry. Consumer and capital equipment still dominated imports, which were generally much more diverse. This pattern clearly limited the potential for job creation through trade. Moreover, it left South Africa vulnerable to shifts in world commodity markets, with little sign of the broader economic diversification needed for stable growth.

Underlying the overall trends in imports and exports were substantial differences in South African trade with different regions. The EU, United States and SADC were the main markets for relatively labour-intensive goods. In contrast, China, India and Brazil bought mostly minerals and heavy chemicals from South Africa, but exported mainly light industrial goods.

These patterns are largely reversed when it comes to imports by South Africa:[2]

- For the EU, minerals comprised 42 per cent of South Africa's exports, automobiles 9 per cent and agricultural goods 7 per cent. South Africa's imports from the EU were mostly transport equipment and automobile inputs (30 per cent of the total), machinery (20 per cent) and appliances (15 per cent).
- SADC imports from South Africa were much more diversified, and included a far higher share of manufactures – over three-quarters of the total. Chemicals comprised 15 per cent, machinery and equipment 12 per cent and food 10 per cent. SADC's exports to South Africa were dominated by mining and agricultural products, at around 25 per cent each.
- In contrast, some 60 per cent of Chinese imports from South Africa were mineral products, with heavy chemicals at 8 per cent. Meanwhile, China's exports to South Africa were predominantly light industrial goods: 25 per cent clothing, textiles and shoes, 20 per cent appliances and 22 per cent machinery and equipment.

The most notable trend was the extraordinary growth in imports from developing countries, especially China. While overall imports rose by just

[2] The following data are calculated from TIPS EasyData (downloaded in November 2004 from www.tips.org.za).

under 60 per cent in dollar terms between 1994 and 2003, imports from China, Brazil and India tripled. In contrast, South African exports to China doubled and to Brazil remained virtually unchanged. Only in the case of India did exports grow almost as fast as imports.

As a result of these trends, although China remained a relatively minor trading partner, its labour-intensive goods displaced competitors. In 1994, China accounted for 4 per cent of South African imports and 5 per cent of labour-intensive imports. In 2003, imports from China accounted for 7 per cent of the total and 13 per cent of labour-intensive goods. In clothing and footwear alone, China provided 40 per cent in 1994 and some 70 per cent in 2003. Meanwhile, China absorbed only 1 per cent of South African exports in both 1994 and 2003.

The trends with regard to the EU and the United States were almost the opposite, at least until the rand appreciated dramatically in 2002. While South Africa's total exports in dollar terms rose 37 per cent between 1994 and 2003, exports to the EU climbed 82 per cent and to the US, 66 per cent. Labour-intensive exports to the EU and United States increased relatively rapidly, especially between 1999 and 2003. But growth in labour-intensive exports slowed substantially with the strengthening of the rand in 2002.

Labour-intensive imports from the EU and the United States rose by only 14 per cent between 1994 and 2003, far slower than the average. Moreover, imports from the EU and the United States rose substantially less rapidly than total imports, growing by 42 per cent for the EU and by 30 per cent for the United States.

Finally, trade with SADC largely stagnated. Overall, exports rose 66 per cent between 1994 and 2003. But imports from SADC climbed only 25 per cent – half as fast as the world total.

In sum, analysis of South Africa's trade suggested that it probably contributed to the slow growth in employment after 1994. But the impact varied substantially by region. Increased trade with Europe and the United States supported relatively labour-intensive activities as long as the rand was at a reasonable rate. Trade with developing countries in general, and China in particular, was more likely to displace domestic light industry and employment. The benefits, however, appeared only in capital-intensive resource-based sectors, with limited gains for the majority of the population. Finally, although it was an important market for key manufacturing industries, trade with SADC remained neglected.

The effects of trade on the public treasury were more complex, since it is difficult to determine the extent to which growing trade in itself contributed to the (admittedly mostly slow) growth after 1994. Certainly the opening of the economy was the main factor behind the adoption of a conservative fiscal policy in 1996. The Government hoped that this stance, articulated in its Growth, Employment and Redistribution (GEAR) strategy (National Treasury, 1996), would prevent the rapid capital outflows experienced by some Asian countries and Mexico in that period.[3]

The GEAR strategy committed the Government to cutting its deficit relative to GDP from 5 per cent in 1997 to under 3 per cent in 2000. Given slow economic growth, the result was a 1 per cent fall each year in total government spending. Given the social and economic pressures arising from the political transition, the budget cuts caused considerable hardship. Moreover, it led to considerable pressure to downsize. Between 1994 and 1999, the State eliminated around 13 per cent of public-service positions, or over 100,000 jobs, mostly through attrition. Some big quasi-enterprises where the State has the majority of shares cut another 100,000 jobs.

From 2000, however, the State adopted a more expansionary stance. By no coincidence, delivery of basic services for the poor accelerated in this period – and so did economic growth. The Government also announced its intentions of increasing employment of health workers, teachers and police, although progress was very slow.

Finally, there is little evidence that cheaper imports translated into a lower cost of living for the poor. The available evidence indicated that the retail chains generally did not lower food or clothing prices when import costs fell (see Food Price Monitoring Committee, 2003). Electronic equipment and cars did decline in price, but constituted only a very small share of expenditure by the low-income group. In 2000, cars made up around 2 per cent and electronics about 0.5 per cent of spending by households earning under R2,500 a month (which included about half of all union members).

When analysing the expenditure by type of consumption by income quintile, the richest quintile accounted for over half of total consumption for all major consumer goods except for food. The rich dominated particularly in more sophisticated electrical and electronic equipment, which was more likely to be imported.

Overall, then, it appears that the opening of the South African economy had very mixed implications for unemployment and poverty. The focus on higher exports without adequate, targeted support for more labour-intensive sectors contributed to slower employment growth. Meanwhile, labour-intensive imports displaced employment. Moreover, the threat of capital outflows led to the adoption of a conservative fiscal policy through 2000, with devastating effects on government services.

[3] Conversations with GEAR authors in 1996.

Labour rights

Under apartheid, labour rights varied by race, gender and economic sector. White workers could organize, negotiate and strike, and were protected from forced and child labour. From the late 1970s, African workers in manufacturing also won some legal rights to organize and strike, although they faced considerable state harassment nonetheless. In mining and farming, however, workers enjoyed virtually no organizational rights. Child labour and prison labour were both found on white-owned farms.

After 1994, the democratic State moved swiftly to ensure normal labour rights for workers, with an end to unfair discrimination. The democratic order did not, however, much change the underlying conditions that generated high levels of un- and underemployment. In these circumstances, workers faced soaring unemployment and, despite improved organization in some sectors, falling real pay.

The following section outlines the changes in the formal legal framework for the labour market, and then explores the evolution of workers' conditions since 1994.

The legal framework

Progressively, from 1994, the Government worked to ensure equal rights for all workers. These efforts included stronger state support for workers whose conditions made unions hard to organize, especially farm, domestic and informal workers. More broadly, improved socio-economic rights enhanced workers' bargaining power as well as their living conditions. We here look at government efforts to protect workers' organizational rights and end discrimination, and to improve their overall socio-economic position.

Both the 1994 and the 1996 Constitutions included a separate section on labour relations. This section gave workers and employers the right to organize, and protected workers' right to form unions and strike. In addition, the Constitution banned forced and child labour, and provided that every South African might freely choose their occupation and place of residence. This provision effectively addressed apartheid practices around the migrant labour system, prison labour and job reservation.

The Labour Relations Act (LRA) of 1996 provided the basic framework for employer–employee relationships.

- It defined workers' rights to organize, negotiate and strike.
- In an effort to simplify and speed up dispute settlement, the LRA added a system of mediation and arbitration to the courts, through the state-

funded Commission for Conciliation, Mediation and Arbitration (CCMA) and, for socio-economic disputes, through the National Economic Development and Labour Council (NEDLAC). The LRA also provided a legal framework for sectoral bargaining councils and workplace forums.

- The LRA laid out basic procedures for disciplinary and productivity procedures by employers, and workers' rights in this context.

The Basic Conditions of Employment Act (BCEA) of 1997 officially focused on issues of working time – especially leave and maximum daily working hours. It set a framework for sectoral minimum wages ("wage determinations") for workers whose circumstances made union organization difficult. It also banned paid or dangerous labour by children under 15 years old.

Perhaps the BCEA's biggest impact was in the definition of employee, which included all workers except the self-employed, irrespective of their contractual situation. This ruled out the previous distinction between casual/contract and permanent workers, ensuring much greater equity in legal protection across labour-market segments.

The Government made relatively little change in occupational health and safety legislation, beyond ensuring that the same standards applied in all sectors. The main innovation was the introduction of a legal framework for joint worker/employer committees on health and safety in large workplaces.

In light of the apartheid past, the Government prioritized efforts to end workplace discrimination. The 1996 Constitution banned unfair discrimination based amongst others on race, gender, disability, age or ethnicity, by either the State or private interests.

In effect, unfair discrimination only applies where there is no economic justification for differentiation. This approach seeks to ensure that anti-discrimination measures do not undermine productivity. But it means that, as long as black workers in particular have fewer formal qualifications and less experience than whites, employers can legally keep them in lower positions.

The Employment Equity Act (1998) both implemented the constitutional ban on unfair discrimination and went beyond it, by:

- Defining unfair discrimination explicitly to mean differentiation that does not follow from job requirements, and banning discrimination in hiring as well as existing employment.
- Establishing dedicated dispute-settlement procedures. If conciliation fails, the dispute goes, not as usual to binding arbitration, but to the Labour Court.

- Requiring designated employers to develop employment-equity plans with proactive, affirmative measures to promote black people, women and people with disabilities.

Finally, the Government moved rapidly to end racial discrimination in access to social insurance funds for unemployment and compensation for work-related injuries. Because these are formally insurance funds, however, with only small government subsidies, the Government felt it could not include many lower-income and more casual workers. The Unemployment Insurance Fund (UIF) only included domestic workers after 2000. The informal sector remained almost entirely outside the purview of social insurance.[4]

In addition to ensuring equitable rights in the labour market, the transition to democracy fundamentally changed the broader socio-political balance between workers and employers. Moreover, government efforts to improve conditions for the poor sought to open up alternative economic opportunities, improving workers' bargaining power.

Under apartheid, state action and employer power had been coordinated. The provision of equal rights to all citizens undermined this coherence. Above all, workers no longer needed to fear expulsion from urban areas or criminalization if they stood up to their employers. Special legislation protected farm workers' housing rights, so that losing their job should not automatically mean eviction.

These broader rights were particularly important for women workers, including those in unpaid labour. Government specifically sought to strengthen police action against family violence. Other measures worked to enhance women's economic independence. These included the extension of old age pensions and child-support grants to all poor families, as well as efforts to end discrimination against black women in home ownership and access to financial services.

Government also acted directly to increase the economic opportunities and resources available to workers, which should strengthen their position relative to employers. The strongest measures here included the establishment of a skills development strategy and the housing programme.

The skills strategy aimed to overcome the discriminatory policies of the past. It sought to ensure that every worker had access to skills and, on that basis, better jobs. It also tried to install mechanisms to provide certification for workers' informal skills. To support the strategy, the State imposed a 1 per cent payroll levy on all employers.

[4] For historical reasons, the UIF also did not include public-service workers, but since the public service provided almost permanent employment this did not prove a major disadvantage.

The housing and infrastructure policy effectively transferred over R50 billion in assets to poor households. Initially, this strategy was expected to expand opportunities for earning incomes through home-based production. In the event, however, service levels were generally low and costs high, limiting economic use.[5] Still, improved household appliances should ease the burden of unpaid home labour – caring and housework.

Support for small and micro-production, including through land reform and financial support for small enterprise, also aimed to provide alternatives to employment. Generally, however, these programmes had relatively little impact. Land reform affected only a small percentage of total arable land, despite the Government's long-standing commitment to transferring 30 per cent of the land to smallholders. Moreover, virtually all analyses showed that the Government failed to provide effective support for micro-enterprise.

Changes in workers' conditions, 1994–2003

Despite the improvements in workers' rights, their conditions on average deteriorated after 1994. The decline largely reflected the combined pressures of unemployment and rising international competition.

The available data indicate falling wages and salaries. The percentage of workers earning under R1000 a month in nominal terms rose from 36 per cent in 1995 to 39 per cent in 2001, and reached 41 per cent in March 2003 (calculated from Statistics South Africa, 1995, 2002 and 2003). In these eight years, inflation cut the purchasing power of R1000 by over half.

Rising unemployment was also linked to a falling share for labour in the national income. In 2002, remuneration accounted for around 51 per cent of national income, the lowest level in any year since records began in 1946 except for 1980 (which saw a soaring gold price). Labour's share fell particularly sharply in 1999–2002. In this period, profits rose from 29 per cent to 34 per cent of national income (calculated from SARB, 2003).

A particular problem lay in the growing informalization and casualization of labour. It appears that the informal sector expanded substantially in the late 1990s, but essentially stagnated in the early 2000s. The data on the informal sector fluctuate dramatically, however, because of a tendency to redefine informal work over time. Thus, the growth from 1995 to 1999 was exaggerated by the tendency increasingly to include unpaid labour, while the decline from 2000 probably reflected the shift from a general household survey to a more accurate labour force survey (Makgetla, 2004b).

[5] For instance, national government proposals in 2003 on free basic electricity would not provide enough to run a refrigerator, but anyone using more than the minimum might lose the free services altogether.

Only 30 per cent of workers in the informal sector were employed by someone else, compared with almost 95 per cent of those in the formal sector and domestic labour (calculated from Statistics South Africa, 2003). Most labour laws, however, do not apply to the self-employed. This in itself meant they did not much affect informal jobs.

The vast majority of informal workers did not earn enough to live on. In March 2003, three-quarters of informal sector workers earned under R1000 a month, compared with a quarter of formal-sector workers. Casualization also became a concern. In sum, in the absence of substantial growth in employment, the new labour laws did not ensure improved pay for workers as a whole. Union members generally did better than non-union members. But even they faced intense pressure as employers sought to adapt to increasing competition, sometimes through relocation, outsourcing and casualization as well as retrenchments.

Implications for engagement on trade

The South African experience indicates, first, that increased trade does not necessarily improve workers' conditions. Indeed, especially if it does not generate substantial gains in employment or leads to cuts in government spending, it may worsen the situation for labour. In these circumstances, even strong labour laws won't stop the race to the bottom, with employers forcing workers to compete with each other on the basis of declining pay and conditions.

In response to this situation, the Congress of South African Trade Unions (COSATU) called for a structural policy to replace the current emphasis on overall competitiveness. Such a policy would develop targeted measures to support sectors that can create employment on the necessary scale, whether they produce for international or domestic markets. Important sectors from this standpoint included agriculture, especially with accelerated land reform; light industry, both downstream from chemicals and minerals as well as to meet the needs of the poor; and services, including the public sector.

From the early 2000s, COSATU succeeded in gaining business and government support for tripartite work on sectoral approaches. By 2005, quite successful processes had been held in mining, clothing and textiles, information and communication technologies and the financial sector. More are under way for chemicals and metals. The financial sector process, in particular, led to substantial reforms in the sector to encourage diversification of investment as well as improved services for working class and poor households.

Still, it remained a problem that business in general and many government officials preferred to focus on competitiveness rather than job creation. Yet COSATU's experience over the past ten years demonstrates that measures to support competitiveness will not necessarily lead to substantially higher employment or equity. Indeed, some competitiveness measures may actually destroy employment.

The South African experience also demonstrates that an expansionary fiscal and monetary strategy, while inadequate in itself, is a critical necessity. The fiscal restrictions of the late 1990s certainly reduced the growth rate as well as cutting into services for the poor and employment. The relatively high interest rates of the early 2000s, while lower than the extraordinary rates seen in the late 1990s, contributed to the overvaluation of the rand. That, in turn, had a devastating effect on employment by blocking exports and accelerating imports.

Finally, trade negotiations must be consistently reviewed to ensure they support employment and poverty alleviation. Trade negotiators tend to substitute the end in view – ending obstacles to trade – for the real aim of accelerating development. In South Africa in the early 2000s, COSATU played an important role in ensuring that trade negotiations did not simply neglect the employment effects. In 2004, it concluded a policy framework with government and business that concludes that trade should support development and employment creation.

More fundamentally, it is important that trade negotiations leave governments in the South scope to support existing and new industries that can create jobs and raise living standards. That may mean targeted subsidies and protection in ways that the WTO disapproves.

In addition, South-South solidarity, while critically important in the realignment of forces at a multilateral level, cannot be equated to free-trade agreements. Rather, it should be developed in terms of mutually beneficial development programmes, possibly including fixed-preference agreements on trade. By themselves, pure free trade agreements may simply contribute to a race to the bottom.

The South African experience has implications for debates on trade policy in the international labour movement. In particular, it suggests that core labour standards are necessary, but not sufficient, to prevent a race to the bottom as a result of more open economies. Indeed, simply calling for core labour standards without finding a common position on protection for vulnerable or infant industries in both the South and the North has proven divisive.

From this standpoint, the international labour movement should work to develop stronger positions on how trade negotiations can:

- Ensure adequate scope for development policies in the South, including where necessary to protect infant industries and industries that serve basic needs; and
- Link to active labour market policies for workers in the North. Without support for these workers, they may end up bearing the cost of moves to increase the market access of Southern producers.

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