Race to the bottom

South Africa's competitiveness

The labour market has been identified as an important arena of social restructuring in South Africa Business is now required to contribute by upgrading workers' skills, abolishing workplace discrimination and creating a safe and healthy working environment This has cost implications At the same time, intense competition in world markets, where cost cutting has become a priority, is putting new pressures on companies

Kuseni Dlamini and Thor Indradason argue that high labour standards, skills development and recognition of workers' rights are basic to the country's economic prosperity.

The need for competitiveness

Democratic change and globalisation, however, make different demands on businesses It might be assumed that by fulfilling their new social responsibilities, they risk undermining their global competitiveness or, that by going global they will neglect their social responsibilities Companies may be tempted to adopt the short-term approach of cutting costs to the bone and avoiding large investments in people or technology.

We argue that in the long run, this approach is likely to limit the growth of companies and squeeze them out of markets where their competitors are using value-added strategies as well as reducing costs. We also argue that without effective socioeconomic policies, the competitiveness of the national economy will be undermined. Foreign investors will not be drawn to South Africa if the social infrastructure is weak, labour standards are low and national industries are inefficient.

The only option for national economies and business is to become competitive in international markets for high-tech, high-quality products This will not happen overnight, or simply because people want it to happen. Cooperation between government, business and labour is needed to develop the flexible and competitive labour market and strong and stable social infrastructure required for global competitiveness.

Getting global

The labour market and the corporate world have been deeply affected by democratic change in South Africa. Since 1994 a set of labour laws has replaced the Industrial Conciliation Act of 1924 and the 'Wiehahn reforms' of 1979 that extended the Act to the black majority The labour market reforms of the late 1990s reshaped the country's industrial relations system by including black workers as full members of the labour market and adopting basic International Labour Organisation (ILO) principles. By bringing basic citizenship rights into working life, requiring companies to ensure that these rights are respected and giving equal opportunities to all workers, the reforms were an integral part of democratic change. Companies are now expected to contribute to social and economic progress and to recognise their responsibilities to a wider range of interests.This is a break with the past, when shareholders' interests were regarded as paramount.

Developments in the world marketplace are having a powerful influence on South African business South Africa has only recently been exposed to international competition In terms of the latest General Agreement of Tariffs and Trade (GATT) agreement, protective trade barriers and subsidies are to be dismantled in a few years' time. Foreign companies are establishing new branches in the country and local business is increasingly looking to relocate or establish operations abroad. Under the same pressures as other enterprises competing in world markets, they are seeking greater efficiency and higher profits by streamlining Management's commandment is 'flexible specialisation'. This places a premium on speed of reaction, rapid product change and the ability to cut costs quickly. Many believe that it implies the freedom to hire and fire workers at will, leaving workers feeling less secure and committed to employers. Flexible structures and operations and freedom from restraints are seen as basic requirements for success in the modern marketplace.

Strategies for competitiveness

It has been argued that companies can adopt two competitive strategies in the globalised business world, depending on their markets and competition.The first is cost-based, involving the downward adjustment of labour costs and labour standards.This may look more promising for companies locked in fierce competition in world markets, or seeking to break into these markets.The second involves a sensitive improvement in performance and more intense deployment of labour. It seeks to add value through quality production that meets the needs of particular customers, a broad product range, and short, reliable turnaround times This requires relatively high labour standards, training and skills development, stable internal labour markets and a bond between companies and their employees based on mutual commitment and trust. With both strategies productivity rises. But both can be applied simultaneously to produce even better results.

It is quite common to hear company spokespersons describe high labour standards and social rights as 'rigidities' that restrain the companies, prevent them from using their capacity to the full and even undermine their competitiveness. However, they also admit that the strategic edge is mainly achieved by the effective use of human resources and building a strong and versatile social infrastructure in the company. High labour standards and increased productivity can be attained in two ways: through active general labour market polices and strategic human resource management.

Larger companies may be able to raise and maintain high standards of work through training, pay structures and job security, and by generating commitment among employees. Smaller firms, however, depend more on the external organisations of the labour market to provide workers of the required quality. Most companies depend on both.

South Africa's industrial relations have traditionally been conflict-ridden.

In their quest for greater flexibility, some companies in the industrialised countries of Europe and North America have adopted more flexible working hours and tied wages to company performance. Almost everywhere, this has followed negotiations with trade unions. In many cases, unions have been companies' closest allies when changes have been introduced with the aim of improving competitiveness. It is better to have the support and help of unions than to work against them. No longer shielded from the forces of globalisation, the labour market parties have adopted a more cooperative approach. In Britain, the Trade Union Congress has embraced the idea of a 'social partnership' involving 'an acceptance by both employers and trade unions of common aims; a joint commitment to the success of the enterprise'. The principle is that it takes a world-class workforce to create a world-class firm. South Africa's industrial relations have traditionally been unstable and conflict-ridden. In the 1990s, the labour-management relationship has increasingly been marked by mutual trust and cooperation.

The logic of globalisation

In important ways, some sectors of the South African economy more closely resembles those of less developed countries. It cannot simply imitate European and American models. Although globalisation may raise the hopes of business as new markets open up, access to these markets will not be easy.

Between 1980 and 1989 capital flows became increasingly concentrated within a 'triad' zone of Japan and the Pacific rim, Western Europe, and the United States. By the end of the decade more than 80% of the world's foreign direct investment originated in and went to the three regions of the triad. In contrast, the share of the world's capital reaching the less developed economies fell from about 14% in 1982 to almost zero in 1989. A recent Organisation for Economic Co-operation and Development (OECD)/World Bank study found that less than a third of the $213-billion windfall from the present world trade arrangement will go to developing countries. China and a few south-east Asian countries will be the main beneficiaries, while sub-Saharan Africa is set to lose about $1,6-billion because of its loss of privileges in European markets.

For less developed countries, the entry barriers to globalised world markets are extremely high. Globalisation is rapidly creating a new world economic order, as poorer regions and economies gradually lose their links with the most developed and fastest growing regions. Rather than becoming more integrated into the world economy, they are moving in the opposite direction. This is the case with almost all of Africa, most of Latin America and Asia and parts of the former Soviet Union and Eastern Europe.

It has been argued that increased capital mobility has enabled transnational companies to go 'regime shopping', that is, seek out the countries with the lowest production costs. It is feared that this may encourage especially the less-developed countries to join a 'race to the bottom' by dropping labour standards in the belief that they will attract foreign investment. To some extent, companies in the triad zone seem to make investment conditional on a relaxation of labour market standards and tax policies. But this trend is limited, as high labour market and economic standards are also regarded as key requirements for drawing foreign investors. The figures referred to above seem to confirm this. Where social and economic standards are low, as in most less developed countries, the social infrastructure needed for the establishment of world-class companies competing in high-tech/high-quality markets is largely absent. In the short run, the 'race to the bottom' may seem an attractive and even rational option. Countries that enter the race do so at the risk of persistent under-development and falling credibility.

Implications for policies

South Africa is a country of strange contradictions. In terms of economic development it can be considered an advanced country, but it is classified as a Third World nation. It seems much better off than other economies in Africa, with a better chance of competing in world-class markets. There are, however, serious constraints on the development of new, dynamic, world-competitive firms and industries.

Persistently high unemployment rates dampen the prospects for rapid wage increases, an important incentive for interactive regional restructuring assisted by transnational corporations. The demand for higher productivity conflicts with persistently low wages. Pay structures that motivate employees and heighten their commitment are widely seen as important in raising their productivity and the company's competitiveness.

Unemployment, poverty and the lack of unemployment benefits stifle demand in domestic markets. As a result, small and medium-sized firms, producing mainly for domestic markets, find themselves ill-equipped to compete against imports, and unable to renew their capital stock or make new investments. The relatively poor state of domestic markets probably played an important part in the massive capital flight from South Africa that started in the 1980s.

Low educational levels in South Africa are the cumulative result of business treating black workers as a 'replaceable factor of production rather than as a human resource'. The upshot has been a shortage of literate, numerate, skilled and versatile workers, which restricts the growth of firms operating in domestic and international markets More seriously, foreign investors cite this as a major obstacle to investment. Low rates of domestic investment can also be traced to low education levels and the related skills shortage

A lack of international confidence in South Africa's stability is, more than likely, another reason for the reluctance of foreigners to invest here. The turmoil of the late 1970s and 1980s still haunts South African society and business It may take some time to build confidence among foreign investors

The demand for higher productivity conflicts with low wages

National competitiveness

Factors such as these represent the true 'rigidities' of the South African economy By passing the labour laws of the 1990s, government demonstrated its understanding that high labour standards, an educated workforce, skills development, recognition of workers' rights and equality are basic to the country's future economic prosperity, higher living standards and the viability of business Broadly speaking, national competitiveness rests on three pillars: the competitiveness of business, macroeconomic performance and microeconomic policy at industry level. The labour market laws affect all three. First, they aim to increase the competitiveness of business, although the emphasis is mainly on larger companies already competing in world markets The importance of small and medium-sized firms, operating in domestic markets, has been largely overlooked This is unfortunate, because dynamic domestic markets and high levels of investment by local firms serve as an advertisement for foreign investors Strong domestic firms can also provide important support for local businesses that compete internationally

The legislation is designed to enhance the competitiveness of the national economy in an indirect way, by promoting a skilled and flexible workforce in advanced industries and other sectors For investment in people to improve productivity, wages and living standards, a broader approach is needed Attention must be given to housing, educational facilities, health care and transport. These are the backlogs most likely to undermine labour market initiatives.

Although the labour market reforms cannot be regarded as an industrial policy, they are likely to have a positive influence on the development of South African industries They should not, however, be seen as a replacement for industrial policies with a strong emphasis on research and development, improvements in social infrastructure, or effective macroeconomic policies

Many positive developments in South Africa should make it easier to reintegrate the country into the world economy.These include its new political democracy, a reform-minded government, greater international goodwill and the removal of sanctions and trade boycotts By raising social standards and striving for a place among the best, South Africa stands a better chance of weathering the intense competition between transnational companies in world markets. Current trends are clear: in most manufacturing industries, labour costs have been outweighed by market access, quality control, timely delivery and responsiveness to customers' needs. Government policy also influences investors. Such issues as tariff barriers, the flexibility and trainability of the labour force, trade policy and the adoption of compatible technical standards affect business costs.

The pattern of foreign direct investment, and particularly its concentration in the triad zone, reflects the preferences, needs and strategies of modern multinationals. Companies are increasingly trying to match their resources against internationally dispersed resources when making decisions about where to invest.Advances in new technologies and the expansion of market economies have increased the number of attractive locations, and competition between regions and national economies for foreign direct investment has become more intense. When knowledge management and transfer of technology are the key issues in international business, factors such as the structure of the host economy, government policies, and the local business culture can affect the success of investors The modernising economies of many Asian countries, such as Malaysia and Singapore, have a competitive advantage based on the development of knowledge-intensive industries.They have equipped themselves with modern infrastructure, skilled labour and public support services to attract foreign investment in high-tech industries such as software development, telecommunications and electronics.

Technology is the most important factor in decisions by transnational companies about where to locate. But to ensure high productivity and a strategic edge, technology has to be combined with flexible production methods.These include advanced work organisation, a well-trained and versatile workforce, pay structures which provide motivation, and stable and secure conditions in the workplace. Governments in less-developed economies should aim to attract high value-added activities if, in the more open world economic environment, they wish to improve the living standards of their citizens and provide decent conditions for workers. By offering the right macroeconomic conditions, a good infrastructure and excellent education and training systems, governments can help business move up-market and launch new products. This will also help attract foreign businesses engaged in high value-added production. Such an effort, however, requires collaboration between organised labour, business and government. ★

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