The social impact of globalisation

*The ILO conducted a study on the social impact of globalisation. **Susan Hayter** reports on globalisation's effect on job loss in South Africa.*

In the last few years international studies have looked at the social impact of globalisation. In the international multilateral trading regime, concern over 'social dumping' led to the proposal for a social clause to the (then) GATT in 1994. The matter was very controversial and parties referred the issue of what could be termed 'social rules' to the ILO

In the ILO, a task force was established to conduct a series of country studies in order to shed some light on the social effects of economic globalisation. A number of member countries agreed to participate in the country studies, namely Chile, Mauritius, Bangladesh, the Republic of Korea, Switzerland, South Africa and Poland. It is hoped that these country reports, once finalised, will shed some light on the social effects and impact of globalisation on countries at varying stages of development. The South African country report is thus an important part of this process

Economic globalisation

Economic globalisation is a process of rapid economic integration between countries, driven by the increasing liberalisation of international trade and foreign direct investment (FDI), as well as freeing up of capital flows

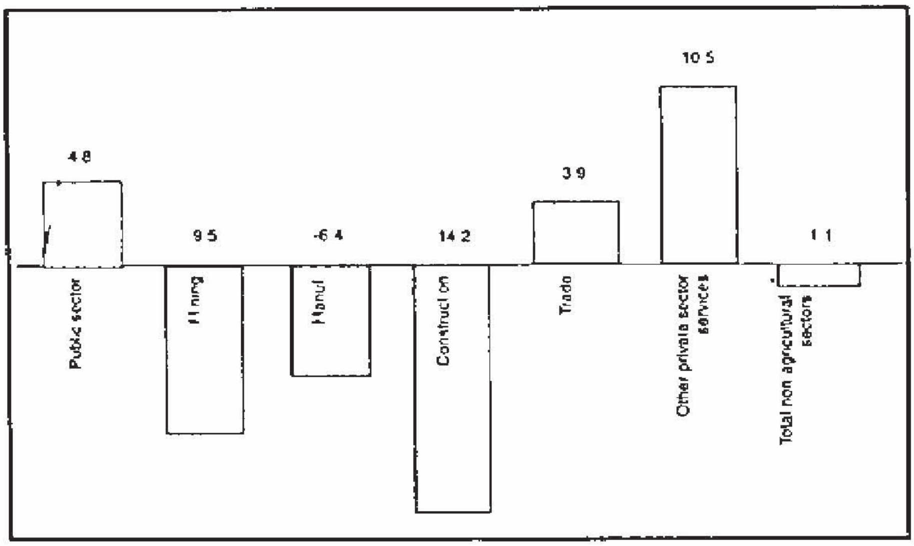
The process is evident in a number of activities such as.

- trade between countries, in goods and services;
- capital flows such as FDI;
- multinational enterprises;
- new production methods and networks;
- technology.

Globalisation

Until South Africa's first democratic elections in 1994, South Africa was isolated from the global economy. After the 1994 elections, South Africa re-entered the international arena and experienced the globalisation of its economy. The new government started a much needed process of economic reform. It introduced policy measures to create an outward-oriented economy aimed at achieving export led growth while at the same time introducing measures aimed at improving social equity

The liberalisation of trade, together with the lifting of sanctions against South Africa, led to a dramatic increase both in exports and imports as a share of GDP. FDI began to increase, showing the increased international interaction and global integration of the South African economy

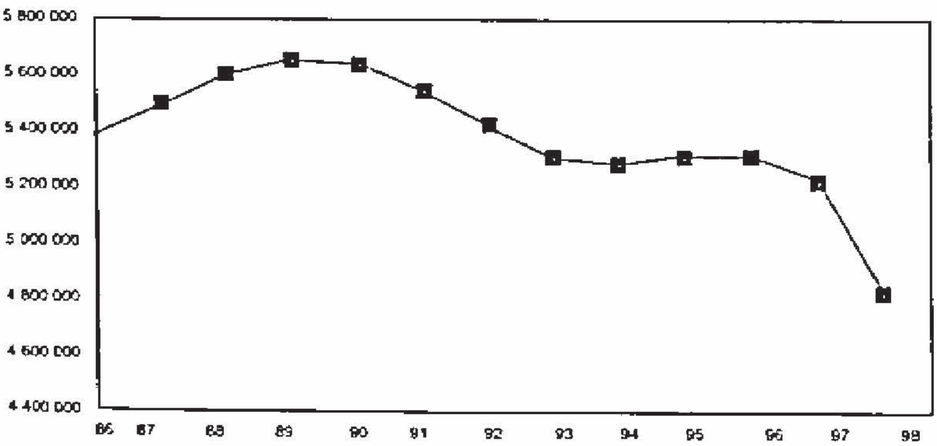


Employment

Apartheid economic policies tended to be capital-intensive – they were biased towards investment in machinery rather than developing human capital (labour). This was a rather strange policy feature in a country with a large (unused) labour force.

The result was that by 1994, unemployment rates had reached unacceptable levels and jobs were being lost at an alarming rate. Official data on employment levels (below) shows a strong decline in non-agricultural employment between 1990 and 1993. Employment stayed roughly the same from 1994 to 1996 and there was an increase in job loss between 1997 and 1998.

A closer examination of the pattern of job losses in the economy since 1994, reveals a very uneven picture. Figures show net employment creation from 1994 to 1997 in the public sector, trade and private services and job losses in mining, manufacturing and construction.



Reason for job losses

Some have argued that globalisation, particularly the liberalisation of trade, has had a very negative effect on the employment situation. They presume that higher levels of imports have caused job losses in the South African economy. This view is supported by the experience in other countries where trade liberalisation had negative employment effects in import-competing sectors. There, companies in import-competing sectors found themselves having to compete with cheaper imports in domestic markets as a direct result of import liberalisation.

The ILO (1999) study examined the issue and found that whilst the processes of trade liberalisation had probably contributed to the weak employment performance, channels through which this has occurred are different from those typically assumed.

Since the start of trade liberalisation, export-oriented sectors had performed better than import-competing sectors in terms of gross output, productivity gains and wage increases. However, relative job losses were comparatively larger in export-oriented sectors compared to job losses in manufacturing import-competing sectors taken as a whole.

Sectors that had previously enjoyed high levels of protection and those that have experienced a more severe decrease in import tariffs have experienced relatively lower job losses than the other sectors All these factors suggest that the direct impact of import liberalisation is not the only or even the main factor behind employment losses.

So what are some of the factors behind these trends in job loss and what does globalisation have to do with it? Empirical analysis carried out in the study suggests that job losses seem to be caused by a process of production rationalisation (or 'rightsizing'). This affects export-oriented sectors in particular

In a low-growth environment characterised by low levels of investment, firms appear to be reacting to increased international competition (in foreign markets) by rationalising production and downsizing employment

A number of questions remain unanswered.

- To what extent had export-oriented sectors been employing excess labour? Did the phasing out of the general export incentive scheme (GEIS) affect employment in those sectors? To what extent is the phasing out of GEIS therefore a key factor behind the relative greater employment losses in export-oriented industries?
- Is employment loss due to rationalisation going to continue, given that the potential for labour productivity increases without a substantial degree of investment are limited?
- Are more jobs going to be lost in export-oriented industries? Given that the five year tariff reduction and rationalisation programme only kicked in in 1995, can we expect a delay in its effects on employment and see more jobs being lost in import oriented sectors?

Employment creation

Why is globalisation not resulting in the creation of employment? Theory on the issue suggests that trade liberalisation has the potential to increase national welfare and create jobs. Indeed, most cross-country studies into these issues conclude that increased trade and foreign investment flows are (at least in the long run and in most cases) correlated with higher rates of economic growth and productivity increases for the economy as a whole. (Edwards)

The potential gains do not happen immediately and are not automatic. They depend on a range of factors such as the nature of internal policies and external economic developments.

For benefits to arise, some adjustment to the economy and a process of industrial restructuring is inevitable. This adjustment, almost by definition, involves a certain degree of labour displacement and an increase in inter-sectoral flows of employment. This means that there will be job losses in some sectors and job creation in other sectors

In this respect, the non-tradeable sectors in South Africa (the public sector, trade and other private sector services) could absorb displaced labour given that they registered net increases in employment between 1994 and 1997. However, there are not enough of these new jobs to absorb workers from sectors in which jobs were lost. These 'new jobs' also often require workers with a much higher level of skill than those workers who are losing jobs.

The study examined the issue of why globalisation has not (yet) resulted in the creation of employment and what features of the South African economy may have worked against employment creation

Membathisi Mdladlana, Minister of Labour, launched the ILO's report.

Capital intensive production

The study proves that trade liberalisation may have raised the demand for capital relative to labour This may be a result of the fact that South Africa has specialised in capital intensive products, which according to several authors is a legacy of past industrial policies

Trade liberalisation appears to have reinforced the capital intensive path of the South African economy instead of resulting in a shift to a more labour-intensive path This works against employment creation. Further research needs to be done on why trade liberalisation and changes in industrial policies have not caused a shift towards a more labour-intensive path.

Lack of investment

A lack of investment is one of the key reasons that employment is not being created The study proves that higher levels of investment are associated with higher employment levels In other words, investment increases the ability of firms to create jobs Insufficient physical capital stock (such as plants, vehicles and machinery) may lie at the heart of the employment problem as these levels are presently insufficient to absorb more employment It is important to note in this respect lthat evels of investment in South Africa at present represent only about 17% of GDP This is much lower than other middle-income countries that have been successful in creating employment. Investment in these middle income countries is usually greater than 25% of GDP.

Skills shortage

The potential gains from globalisation are not a straight forward matter. A period of adjustment, which will involve the displacement of workers in certain sectors and (hopefully) their re-employment in other sectors of the economy, is an inevitable part of the process

The South African economy suffers from a severe shortage of skilled labour and the new jobs created tend to require relatively high levels of skills. This makes it very difficult for 'displaced' labour in one sector to be absorbed in another sector The skills profile of the South African labour force is decreasing the labour market's ability to adapt to the instability often associated with globalisation It could also have negative consequences in terms of economic growth and may have hindered the development of labour intensive sectors.

Inequality

Gloablisation can result in inter-sectoral employment flows. It can also lead to rising inequality and labour market insecurity.

The cross-country analysis conducted by the ILO Task Force (1999) confirmed that globalisation was associated with the erosion of the standard model of salaried employment. New forms of employment are emerging While they often provide new options for many workers they also have a number of negative social consequences, particularly for low skilled workers

Globalisation also tends to benefit some individuals or groups more than others. This translates into either wage inequalities, or employment inequalities or both

Labour market policy

International experience suggests that a country's policy interventions affect the extent to which it reaps the potential benefits from integrating into the global economy and decreases the negative consequences

Labour market policies now need to not only balance efficiency with equity and employment security, but also provide the conditions for the mobility of labour between sectors – as a more open economy is associated with more inter-sectoral employment flows. (ILO, 1999b) This involves a shift of focus to active labour market policies, skills development and providing an adequate social safety net

As a more open economy is associated with more inter-sectoral employment flows (ILO, 1999), it is very important tha labour market policies do not restrict, but rather facilitate the adaptability of the labour market. Labour market policy need to provide for the (inevitable) mobility of labour between sectors by means of activ labour market policies and a focus on skills development.

As the experience of countries such as Chile has shown, globalisation has the potential to increase national welfare. However, we cannot ignore issues that relate to the distribution of these benefits, the employment effects and the possible negative social consequences.

Transitional adjustments induced by the opening up of the economy places a new basket of factors on the table. Labour market policy in a liberalising economy is not a simple matter of ensuring efficiency in the labour market and 'regulating flexibility'. The rising unemployment, increasing labour market insecurity and disproportionate benefits from a more open economy make it necessary for us to develop a more thorough understanding of the dynamics involved and assess policy options and their effectiveness in creating a better living for all ★

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This article is based on a study by an ILO task force conducting country studies on the social dimension of globalisation