Trade and development in South Africa

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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 with the ending of apartheid in the early 1990s was associated with both growing exports and imports and soaring unemployment – now close to 30%.[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, 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 auto.

This experience points to the need for a strong structural policy to support sectors that can create employment, especially agriculture, light industries and services. That, in turn, requires a trade policy that encourages and supports employment-creating activities. The challenge for labour becomes both to engage within South Africa in defining more specific policy measures, and internationally to ensure that international and bilateral arrangements leave space for this more differentiated strategy.

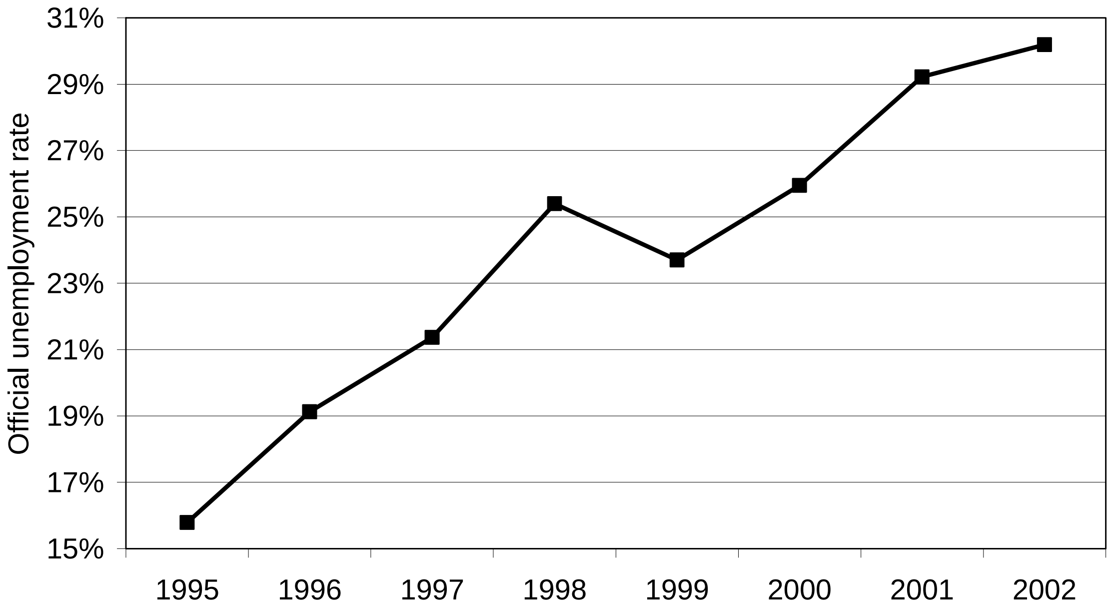
This paper first reviews the central challenges facing the South African economy, above all around unemployment and growth. It then looks at the impact of trade on poverty and employment. The third section outlines the nature of labour rights, and assesses the trends in workers' pay and conditions. Finally,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

1 Unemployment and growth in South Africa

From the first democratic elections in 1994, the unemployment rate rose steadily from 16% to around 30% in 2002, as the following graph shows. In early 2004, it levelled out at between 25% and 30%.

[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%.

Unemployment rate,[1] 1995-2002



Note: 1. The official definition of unemployment, used here, classes workers who want paid jobs but are too discouraged to seek it as "economically inactive," rather than as unemployed. Source: Figures calculated from Statistics South Africa, *South Africa in Transition* (Pretoria: 2001) for 1995-1999, and from Statistics South Africa, Labour Force Survey, September 2002, electronic database.

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)

Economic status and incomes by race and gender, 2003

	African women		African men			
	Former homeland[1]	Other areas	Former homeland[1]	Other areas	Coloureds/ Asians	Whites
% of adults:						
Not economically active	51%	33%	43%	26%	35%	36%
Unemployed	30%	34%	27%	29%	18%	5%
Employed	19%	33%	30%	45%	47%	59%
- Formal sector	*7%*	*18%*	*18%*	*36%*	*41%*	*55%*
- Informal sector	*8%*	*6%*	*11%*	*9%*	*3%*	*4%*
- Domestic work	*4%*	*9%*	*0%*	*1%*	*2%*	*0%*
% of employed earning under R1000/month[2]	*53%*	*81%*	*30%*	*60%*	*11%*	*2%*
% of working-age adults	*20%*	*21%*	*16%*	*20%*	*12%*	*10%*

Notes: 1. The former homeland areas are here represented by the rural areas of KwaZulu Natal, Mpumalanga, North West, Limpopo and the Eastern Cape. This area also includes some commercial farming areas. Virtually no Coloureds, Asians or Whites live in the former homeland areas. Gender is not shown for these groups due to lack of space, but the gender differences are in any case much lower than for Africans. "Not economically active" means neither earning an income nor trying to. 2. In US dollar terms, R1000 fluctuated between $76 and $166 between 2002 and 2004, depending on the exchange rate. *Source:* Statistics South Africa, 2003. *Labourforce Survey September 2003.* Database on CD-ROM. Pretoria.

Soaring unemployment was associated with relatively slow growth. As the following table indicates, South Africa's economic performance did not match up to other middle-income countries for most of the period after independence.

Growth, investment and unemployment compared to other countries

	GDP growth 1990-2001	GDP per capita[1] 2001	investment as % of GDP 2001	Unemployment rate 1998-2001[2]
South Africa	2.1%	10,910	15%	23%
Middle-income countries	*3.4%*	*5,390*	*24%*	*5%*
of which:				
Malaysia	6.5%	7,910	29%	3%
Chile	6.3%	8,840	21%	10%
South Korea	5.7%	15,060	27%	4%
Egypt	4.5%	3,560	15%	8%
Brazil	2.8%	7,070	21%	10%

Notes: 1. The GDP per capita is here calculated in terms of purchasing power parity, which seeks to measure actual output without taking exchange rate fluctuations into account. 2. The unemployment rate is given for one year between 1998 and 2001. *Source:* World Bank, *Development Indicators 2003.* Washington, D.C.

In 2004, for the first time since the mid-1990s, the economy grew at over 3%. 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. Employment grew primarily in retail trade and construction, reflecting 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 gold and platinum prices.

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.

2 Trade, employment and poverty

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

1. on employment,
2. on the structure of ownership,
3. on government’s ability to provide services, and
4. on 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, concentrated 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 fiscus 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 import a relatively small share of their needs. If labour-intensive imports displace local producers, the net benefits for the poor may be small 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 focused on 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 macro-economic 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 industries.

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

2.1 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 1994a)

1. The structure of the formal sector historically centred on minerals and, more recently, heavy chemicals and auto. These sectors 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.
2. 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 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 and steel refining,
- In manufacturing, faster growth in heavy chemicals and auto, with relative stagnation in light industry,
- In services, rapid expansion in the relatively capital-intensive sectors of finance and communications, with little growth in other private services and a decline in the public sector,
- A decline in construction, and
- Rising capital intensity and substantial job losses in commercial farming.

All of these trends 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 2003, formal employment grew only about 1% a year, or about half as fast as the population.

Various indicators showed the trend toward a more capital-intensive economy. To start with, as the following table indicates, 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.

Growth rates and capital intensity, 1994-2002

Average annual growth rate, 1994-2002	Capital-labour ratio, 2002 (rand)
Communications and basic non-ferrous metals at 15%	2,215,000
Sectors growing over 5%	539,000
Sectors growing 3% to 5%	345,000
Sectors growing under 3%	129,000

Calculated from TIPS EasyData, downloaded from www.tips.org.za in March 2004

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; auto; 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.

2.2 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 stabilised, and the country joined the GATT (now the WTO) at the cost of substantial tariff cuts.

The democratic government – or at least the Department of Trade and Industry – embraced the philosophy of free trade with enthusiasm. According to its Integrated Manufacturing Strategy,

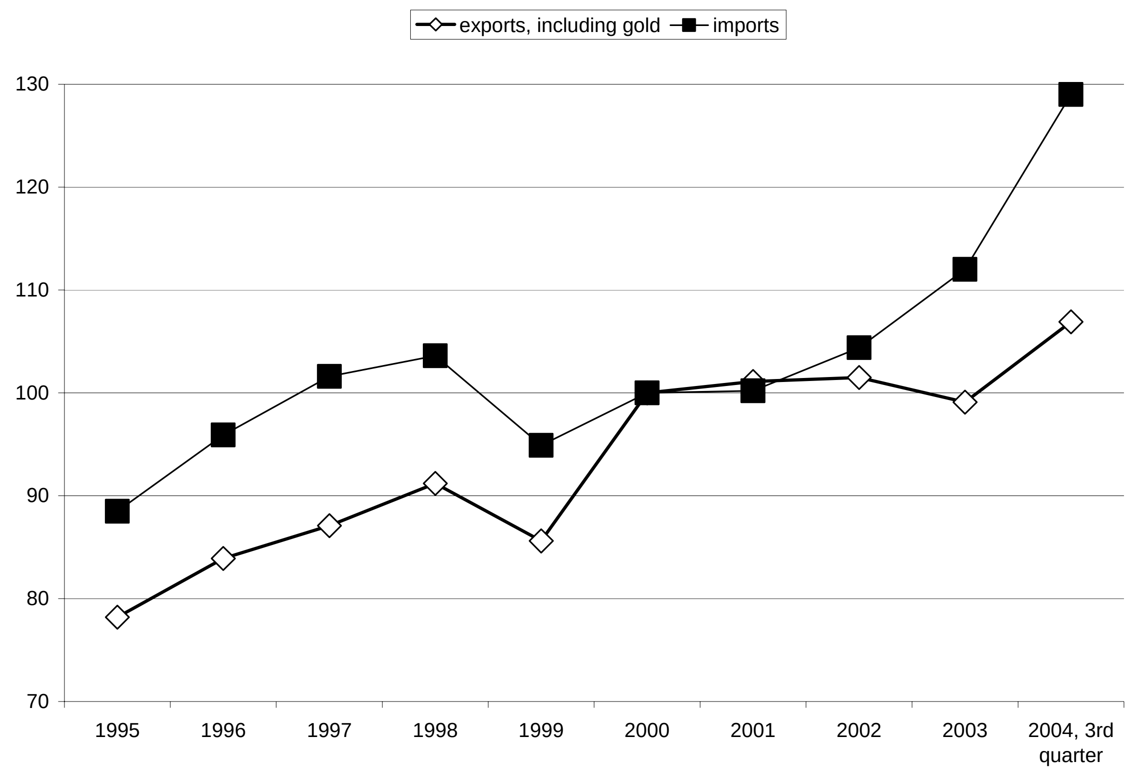
> "…the purpose of reforms [after 1994] was clearly aligned towards an opening up the economy, enhancing competitiveness, improved access to economic opportunities and greater geographic equity [within the country]." (DTI 2002)

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 emphasised 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." (SA Government 2004)

The opening of the economy saw rapid growth in South African trade, as the following table shows. 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% and imports 43%.

Indices of export and import volume, 1995 to third quarter 2004 (2000 = 100)



Source: South African Reserve Bank, *Quarterly Bulletin,* December 2004, p. S-89. Downloaded from www.reservebank.co.za in December 2004

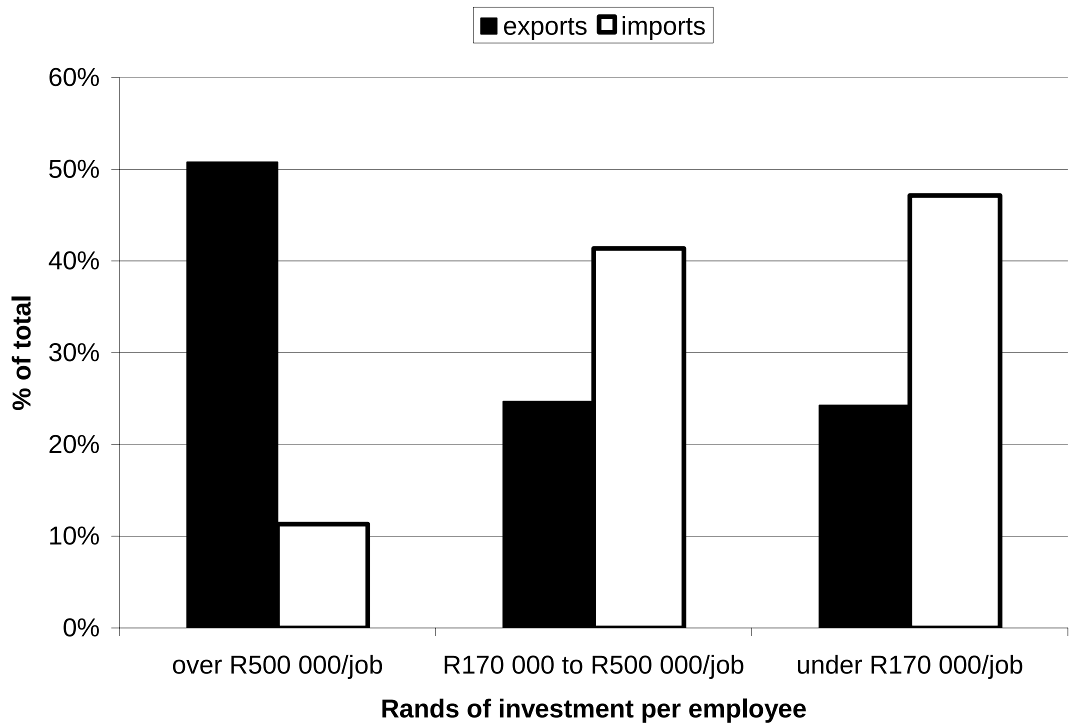
Despite the growth in volume, the structure of trade seemed unlikely to generate employment on the necessary scale. Specifically, South Africa's exports remained geared primarily toward relatively capital-intensive sectors – notably minerals, heavy chemicals and auto. Expansion in these sectors did little 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. SADC and the E.U. 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.

As the following table shows, 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 in investment per jobs. This pattern suggests that increased exports did little to create employment directly, while rising imports displaced jobs on a larger scale.

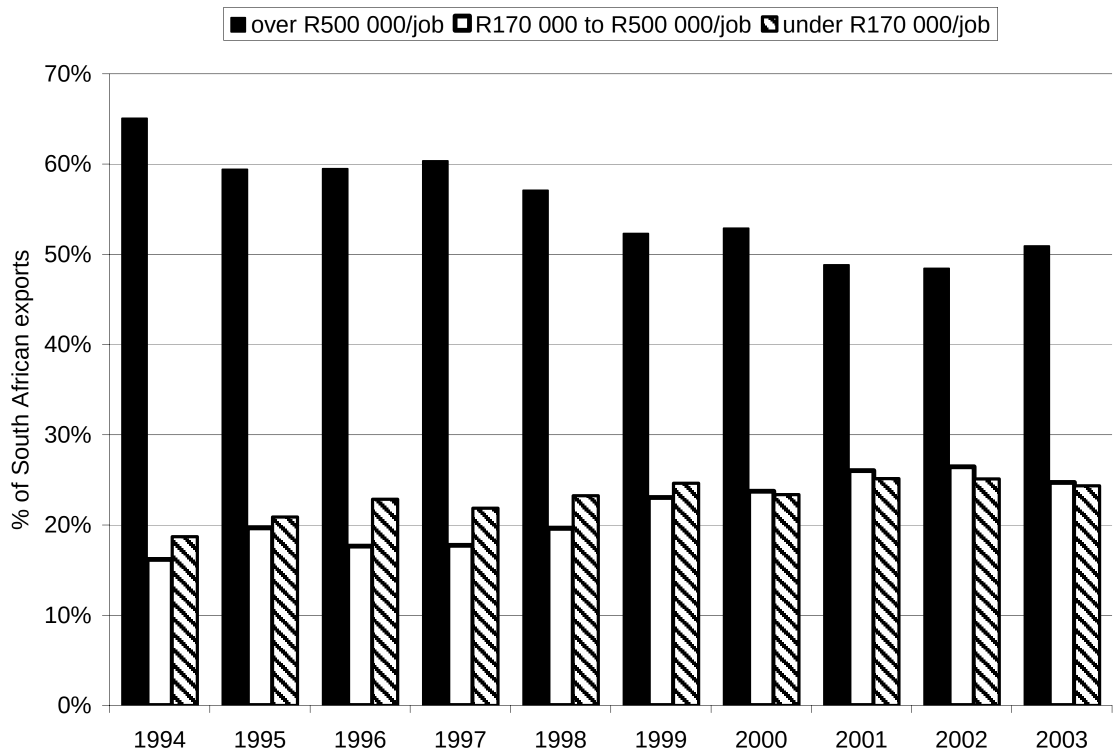
Share of imports and exports by fixed capital per employee,[1] 2003



Note: 1. Capital intensity was estimated using a weighted average of the capital-intensity per sector of exports and imports, and is therefore only indicative. **Source:** Calculated from TIPS EasyData, downloaded November 2004 from www.tips.org.za

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.

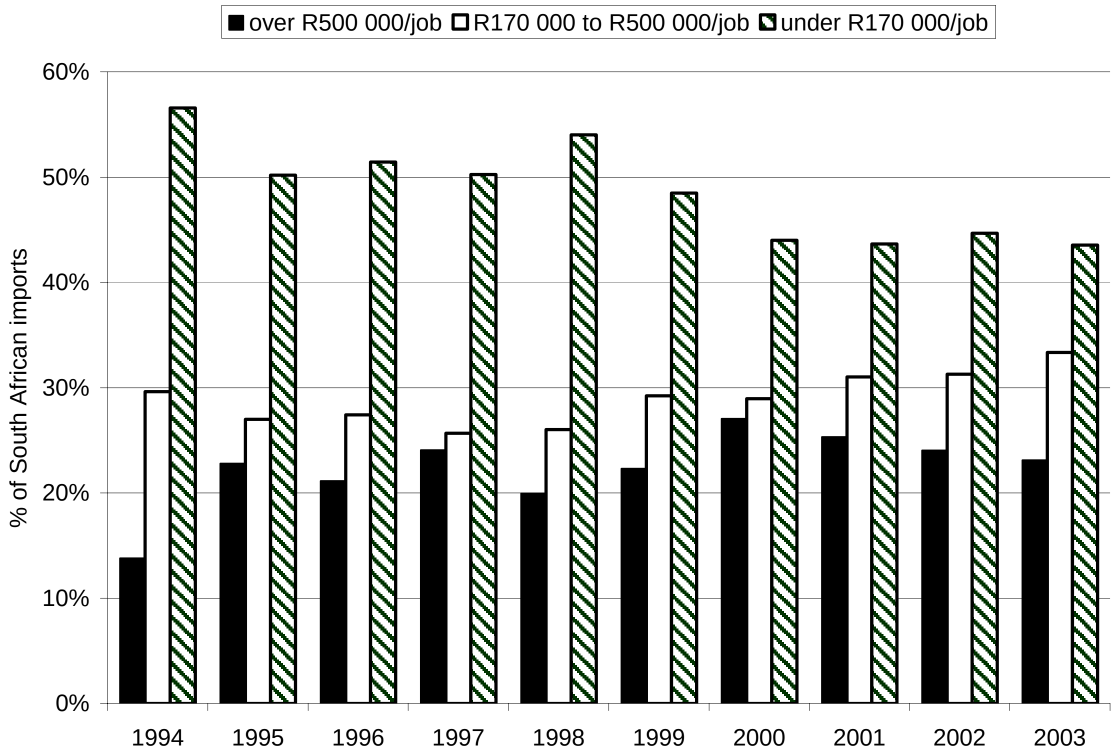
Exports by level of capital intensity,[1] 1994 to 2003



Note: 1. Capital intensity was estimated by using a weighted average of the average capital-intensity per sector of exports in 2003, and should therefore be seen as indicative. **Source:** Calculated from TIPS EasyData, downloaded November 2004 from www.tips.org.za

In contrast, as the following table shows, 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.

Imports by level of capital intensity, [1] **1994 to 2003**



Note: 1. Capital intensity was estimated by using a weighted average of the average capital-intensity per sector of imports in 2003, and should therefore be seen as indicative. **Source:** Calculated from TIPS EasyData, downloaded November 2004 from www.tips.org.za

Exports were capital intensive because they were dominated by minerals, auto 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, auto 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.

Major exports and imports, 2003

	1994	2003
Imports		
machinery and equipment	22%	18%
transport equipment	15%	22%
Appliances	14%	12%
Other	49%	48%
Exports		
mining and minerals	57%	47%
Auto	2%	10%
heavy chemicals	8%	9%
Other	33%	35%

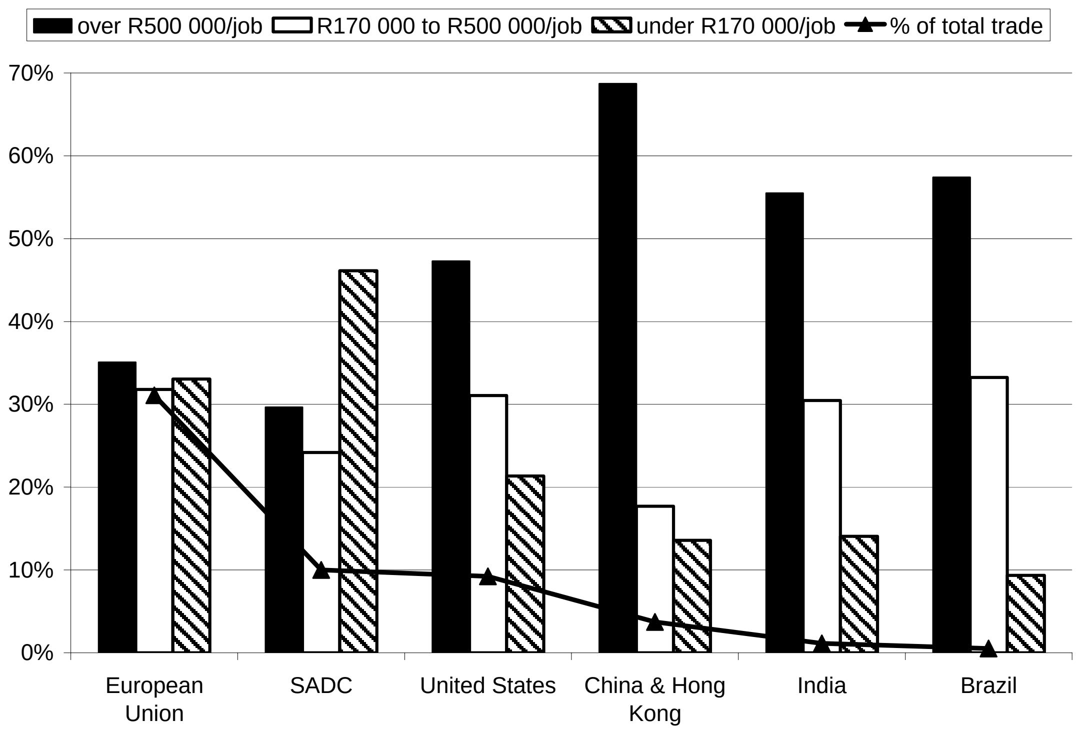
Source: Calculated from TIPS EasyData, downloaded November 2004 from www.tips.org.za

In short, the overall pattern of trade remained essentially characterised by exports of resource-based goods, with the exception of the auto 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 E.U., U.S. 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.

In the following table, the bars show the share of trade by sectors at different levels of capital intensity. The line shows the share of the region in South Africa's total trade.

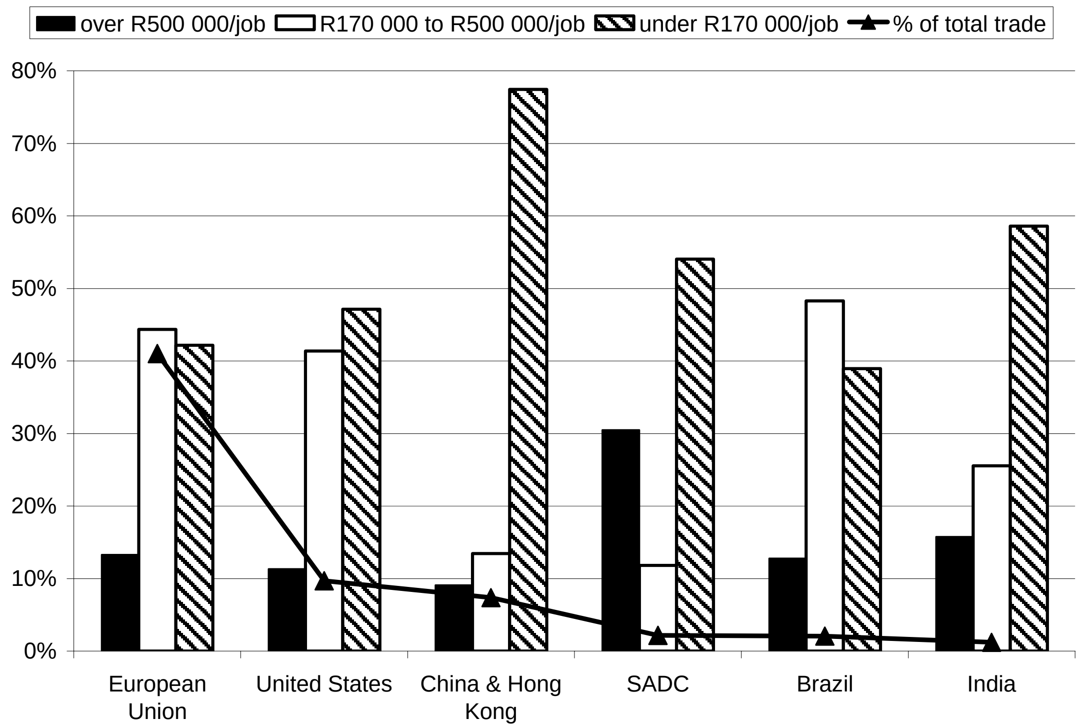
Exports by capital intensity[1] and region, 2003



Note: 1. Capital intensity was estimated by using a weighted average of the average capital-intensity per sector of exports. **Source:** Calculated from TIPS EasyData, downloaded November 2004 from www.tips.org.za

These patterns are largely reversed when it comes to imports by South Africa. Again, in the following chart, the bars show the share of trade by level of capital intensity, while the line shows the region's share in total trade.

Imports by capital intensity[1] and region, 2003



Note: 1. Capital intensity was calculated by using a weighted average of the average capital-intensity per sector of imports. **Source:** Calculated from TIPS EasyData, downloaded November 2004 from www.tips.org.za

These trade patterns reflect substantial differences in the commodities traded.

- For the E.U., minerals comprised 42% of South Africa's exports, auto 9%, and agricultural goods 7%. South Africa's imports from the E.U. were mostly transport equipment and auto inputs (30% of the total), machinery (20%) and appliances (15%).
- 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%, machinery and equipment 12%, and food 10%. SADC's exports to South Africa were dominated by mining and agricultural products, at around 25% each.
- In contrast, some 60% of Chinese imports from South Africa were mineral products, with heavy chemicals at 8%. Meanwhile, China's exports to South Africa were predominantly light industrial goods: 25% clothing, textiles and shoes, 20% appliances, and 22% machinery and equipment.

The most notably trend was the extraordinary growth in imports from developing countries, especially China. While overall imports rose by just under 60% 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% of South African imports, and 5% of labour-intensive imports. In 2003, imports from China accounted for 7% of the total, and 13% of labour-intensive goods. In clothing and footwear alone, China provided 40% in 1994, and some 70% in 2003. Meanwhile, China absorbed only 1% of South African exports in both 1994 and 2003.

The trends with regard to the E.U. and the U.S. were almost the opposite, at least until the rand appreciated dramatically in 2002. While South Africa's total exports in dollar terms rose 37% between 1994 and 2003, exports to the E.U. climbed 82% and to the US, 66%. Labour-intensive exports to the E.U. and U.S. 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 E.U. and the US rose by only 14% between 1994 and 2003, far slower than the average. Moreover, imports from the E.U. and the US rose substantially less rapidly than total imports, growing 42% for the E.U. and 30% for the US.

Finally, trade with SADC largely stagnated. Overall, exports rose 66% between 1994 and 2003. But imports from SADC climbed only 25% - 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 U.S. 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 fiscus 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.[2]

GEAR committed government to cutting its deficit relative to GDP from 5% in 1997 to under 3% in 2000. Given slow economic growth, the result was a 1% fall each year in total government spending. Given the social and economic

[2] Conversations with GEAR authors in 1996.

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% of public-service positions, or over 100 000 jobs, mostly through attrition. The big parastatals 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 expanded in this period – and so did economic growth. The following table illustrates these trends in the case of electricity, water and sanitation. Government also announced its intentions of increasing employment of health workers, teachers and police, although progress was very slow.

Access to infrastructure, 1996 to 2003

	Percentage of households with access to service			Average annual increase in share of households with access	
Basic service	**1996**	**2000**	**2003**	**1996-2000**	**2000-'03**
Electricity for lighting	64%	71%	79%	2.1%	3.6%
Electricity for cooking	51%	51%	59%	0.0%	5.0%
Piped water	82%	83%	86%	0.3%	1.2%
Flush toilet	52%	54%	57%	0.6%	1.6%

Source: Calculated from, Statistics South Africa. October Household Survey 1996 and Labourforce Survey, September 2000 and 2003. Pretoria. Databases on CD-Rom.

Finally, there is little evidence that cheaper imports translated in 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% and electronics about 0,5% of spending by households earning under R2500 a month (which included about half of all union members). (calculated from StatsSA 200xx)

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 Labour rights

Under apartheid, labour rights varied by race, gender and economic sector. White workers could organise, 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 organise and strike, although they faced considerable state harassment nonetheless. In mining and farming, however, workers enjoyed virtually no organisational 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 organisation in some sectors, falling real pay.

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

3.1 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 organise, 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' organisational 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 organise, 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 organise, 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 CCMA and, for socio-economic disputes, through 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 organisation 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, government prioritised 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 less formal qualifications and 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 pro-active, 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, government felt it could not include many lower-income and more casual workers. The UIF only included domestic workers after 2000. The informal sector remained almost entirely outside the purview of social insurance.[3]

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

[3] For historic 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.

workers' bargaining power.

Under apartheid, state action and employer power had been co-ordinated. The provision of equal rights to all citizens undermined this coherence. Above all, workers no longer needed to fear expulsion from urban areas or criminalisation if they stood up to their employers. Special legislation protected farmworkers' 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% payroll levy on all employers.

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.[4] Still, by reducing the amount of housework required, improved household infrastructure should ease the burden of unpaid reproductive labour.

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% of the land to smallholders. Moreover, virtually all analyses showed that government failed to provide effective support for micro enterprise.

1.1 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

[4] 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.

unemployment and rising international competition.

The available data indicates falling wages and salaries. The percentage of workers earning under R1000 a month in nominal terms rose from 36% in 1995 to 39% in 2001, and reached 41% in March 2003. (Calculated from StatsSA, 1995, 2003a and 2003b) 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% 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% to 34% of national income. (Calculated from SARB 2003)

A particular problem lay in the growing informalisation and casualisation 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 household survey to a labourforce survey. (See Makgetla 2004b)

Informal workers, domestic labour and subsistence farmers relative to total labour force

Year	Millions of workers	% of labour force
1995	1740	17%
1999	2706	26%
2000 (September)	3822	33%
2003 (March)	3270	28%

Source: StatsSA, relevant October Household and Labour Force Surveys. www.statssa.gov.za. Downloaded December 2003.

Only 30% of workers in the informal sector were employed by someone else, compared to almost 95% of those in the formal sector and domestic labour. (Calculated from StatsSA, 2003a, table 2.11.2) 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, as the following table shows. In March 2003, three quarters of informal sector earned under R1000 a month, compared to a quarter of formal-sector workers.

Formal and informal incomes, March 2003

Income category	Formal	Informal	Domestic
under R1000	25%	78%	90%
under R2500	57%	93%	100%
total (%)	225%	278%	290%
total (mns)	7,53 mn	2,19 mn	0,98 mn

Source: Calculated from, StatsSA, 2003. *Labour Force Survey, March 2003.* (Pretoria) Table 3.5

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 informalisation as well as retrenchments.

4 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, 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 the 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, more or less successful processes had been held in mining, clothing and textiles, information and communication technologies and the financial sector. More are underway 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 our 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 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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