Causes and consequences of globalisation: what implications for the Namibian labour market?

The economic returns from greater openness are indisputable, but are perceived as having been unevenly distributed both between and within countries. For some groups, the rising flow of trade and capital has heightened the sense of vulnerability. Workers in industrialised countries fear being displaced by cheaper labour in developing countries. Developing countries think that the continuing globalisation, particularly of capital markets, will lead to greater volatility in their national economies, which will damage their growth performance. This is a fear that has been raised by the labour movement in Namibia. Thus, globalisation is often associated with greater unemployment and social collapse. Without a doubt, globalisation impinges on development from several directions. Of greatest significance for national policy are: growth of trade, capital flows and financial capability, migration, information technology and the Internet, and the diffusion of technology. All parts of the world are affected by globalisation through these channels, but it is important to remember that the full force of change is felt by a relatively small number of upper and middle-income countries, whereas most poor countries are left out. Most economies are only partially integrated into the global system and Namibia, as part of SACU, is no exception. Naturally, while this insulates closed economies to a degree from the risk of turbulence associated with volatile short-term capital flows, it also prevents these countries from tapping the resources, energy and ideas inherent in globalisation. Africa in particular is relatively closed and thus lagging behind in terms of economic development. Openness to trade, factor flows, ideas and information have powerfully stimulated both economic and political progress. The most open nations are at the forefront of the advance. Nevertheless, it is also the case that a large number of developing countries have been unable to benefit from trade liberalisation, given their inadequate physical and social infrastructure.

| Rationale | The distribution of the gains and losses of globalisation is widely disputed but little understood, particularly as they relate to the labour market. The purpose of this policy brief is to investigate the economic impact of globalisation on the Namibian labour market. It deals with how trade liberalisation, which is just one dimension of globalisation, impacts on the labour market, and therefore outlines possible indicators of the links between liberalisation and employment. |
| Definitions | Globalisation refers to the process of increased close economic interaction among nations. Such interaction involves the movement of goods and services and factor inputs, through imports and exports, the migration of mainly skilled labour and the flow of both short and long-term capital. It is important to emphasise the extent to which technological advancements are central in determining the pace at which factors of production (capital, labour, other inputs) move and relate to each other. |
| Two waves | Two waves of globalisation can be identified. The first ran from 1870 to 1914, and the second started around 1960. The waves were separated by the reconstruction of protectionist barriers to trade as well as the imposition of capital and migration controls. When the leading industrial nations turned inwards after the First World War, the retreat from globalisation was a grave setback for the entire community of nations. The two waves of globalisation are quite similar if looked at through trade-and-capital flows to GDP ratios, but differ in the sense that the present wave of globalisation is characterised by trade in knowledge and information, which has been engendered by the strong reduction in communication costs. Furthermore, while the world was fairly homogenous at the outset of the first wave—homogeneously poor and agrarian, that is—the world was highly unequal at the start of the second wave, as it is sharply divided between rich industrial nations and poor primary producers. Exploring the links between trade liberalisation and employment |
impinges on the labour market in developing countries. Most studies focus on the US and EU experiences. In order to understand the effect of trade liberalisation on employment in the Namibian economy, the question of gains from trade needs to be probed. It is generally assumed in economic theory that the lowering of trade barriers automatically allows countries that trade to attain higher consumption levels, i.e. global aggregate demand for (and hence production of) goods rises. However many argue that liberalising trade and capital flows destroys jobs, because increased imports (a direct result of reduced tariffs) lead to job losses, the implication being that trade liberalisation will destroy jobs in import-competing sectors.

Namibia does have a highly segmented labour market. In the past, each ‘language group’ had significantly differentiated access to employment and wages, and therefore a high waged and largely formal sector co-exists with a low waged informal rural economy. Productivity levels are low and unemployment remains high among the unskilled in the midst of rising wage inequality. There is a shortage of skills in Namibia, and the acute shortage of skills results in a very high skills premium. This is reflected in a steep gradient in real wages according to skills’ levels, again reflecting the premium commanded by training. Figure 1 shows the degree of wage inequality in Namibia as well as the level of the skills premium. A typical unskilled person earns on average 3% of the wages and salaries of top management. Even when expressed as a ratio of semi-skilled wages, the unskilled still get less than 50% of the inflation-adjusted wages of the semi-skilled. Could trade liberalisation be responsible?

Figure 1 The ratio of unskilled wages to other skill levels, 1993 to 2000

![Graph showing the ratio of unskilled wages to other skill levels, 1993 to 2000.](image)

Source: Authors’ calculations from the Jobs Unlimited Survey Data (1993-2000)

In order to understand whether trade liberalisation could be responsible for rising wage inequality and unemployment we classify each sector according to several criteria. In addition it is assumed that trade liberalisation in SACU (and therefore Namibia) coincided with the change in government in South Africa in 1994. We calculated measures of revealed comparative advantage (RCA) between 1993 and 2000 for Namibia, in order to analyse the impact of trade liberalisation on the Namibian labour market. RCA is an indirect method of estimating a country’s comparative advantage in a sector or commodity. We use the net trade to total trade ratio to evaluate Namibia’s trade performance. The ratio ranges from –1 when there are no exports which reveals comparative disadvantage, to +1 when there are no imports which reveals comparative advantage. These RCAs were then used to distinguish between import and export-oriented sectors. It is found that only mining, agriculture and fisheries are export-oriented, while electricity and manufacturing are classified as import competing. The rest of the sectors are classified as non-trading (i.e. as having no exports or imports). Sectors identified as being export-oriented indicate comparative advantage. Next, each sector is classified by an employment intensity index. When the index is greater than 1, then the sector is classified as employment intensive, and when it is less than 1, then the sector is capital intensive (less employment intensive). On the basis of this measure, only agriculture and fisheries as well as the construction sector are classified as having been employment intensive between 1991 and 1997. For comparison we use data from the 1991 and 1997 labour force surveys.

Namibia is dominated by capital-intensive sectors. These sectors account for over 30% of employment and approximately 75% of GDP. The analysis suggests that the greatest employment losses were recorded in the employment-intensive, marginally export-oriented agriculture and fisheries sector. The highly capital intensive mining sector also reduced employment considerably, from 14,371 jobs in 1991 to a mere 6,592 jobs in 1997. The government sector and the transport and communications sector were the biggest net-employers over the same period.

The net growth in employment in the import-competing and non-trading sectors led to a small but positive change in total employment between 1991 and 1997. This suggests that the employment creation capacity of import-competing and non-trading sectors slightly outstrips the employment displacement capacity of the export-oriented sectors.
Another main result that emerges from these comparisons is that export-oriented sectors have at the margin enjoyed a better performance in terms of wage increases than import-competing sectors. However, as pointed out earlier, relative employment losses have also been considerable in the highly export-oriented, natural resource based and capital-intensive mining sector (see Figure 2 and Figure 3). With trade liberalisation the reverse is expected as cheaper imports compete with domestically produced goods; i.e. greater employment losses in import-competing sectors. However, between 1991 and 1997 no job losses occurred in import-competing sectors of the economy. This suggests that employment losses in the Namibian economy between 1991 and 1997 cannot be the directly related to import competition and calls into question the proposition that import liberalisation may have had an effect on employment. In fact, it seems that the process of liberalisation has been moving rather slowly in Namibia as we are bound by SACU legislation. Arrangements for the implementation of the abolition of export and import licensing are still under way; however, tariff lines have been reduced from over 14,000 to fewer than 8,000.

**Figure 2 Developments in nominal wages compared to measures of inflation, 1994 to 2000**

Source: National Accounts 1993-2000

**Figure 3 Employment and nominal wages in the mining sector, 1981 to 2000**

Source: Chamber of Mines

We find evidence that the mining sector, which is an export-oriented sector, reduced employment considerably, as the number of employees declined by almost a factor of four between 1981 and 1999. It could be that the demand for higher wages by organised labour displaced jobs but at the same raised wages. Another explanation could be that in the face of tougher competition from abroad, mining companies rationalised production. In the diamond-mining sub-sector, offshore production has become quite important in recent years. Offshore mining is typically technology intensive. However, in a low growth environment characterised by low investment rates, enterprises react to international competition by rationalising production and downsizing employment.

This is supported by a simple comparison of investment and employment dynamics of the key economic sectors. Indeed, mining and agriculture, the only sectors with net job losses, experienced real investment growth rates of 12-13% between 1993 and 2000, whereas other sectors such the utilities sector which are not strictly exposed to external competition saw average rates of capital formation double the growth rates for mining and agriculture. The utilities sector recorded net employment gains of close to 400%, and the transport and communication sector employment grew by 176% between 1991 and 1997.

Given Namibia’s specialisation in capital-intensive sectors, the extent to which trade liberalisation may have increased the demand for capital whilst reducing that for labour - and in this way contributing to the weak employment performance - remains unresolved, although we think trade liberalisation may have increased the demand for capital at the expense of labour.
Institutional barriers

This is quite plausible given the number of investment incentives favouring capital investments. There is some support for this hypothesis in South Africa, where it was found that producer prices for capital-intensive goods rose faster than for labour intensive goods. Unfortunately, due to data constraints it is not possible to do a similar calculation for Namibia.

Finally it could be that institutional barriers in the labour market favour capital and thereby crowd out job-creation, and may even indirectly contribute to job destruction. We find this quite plausible given the degree of unionisation in the Namibian labour market. Nearly 26% of Namibia’s employed population belongs to trade and other unions. In fact, research done at NEPRU suggests that the main factor determining high labour costs in Namibia is the strong influence of trade unions in the formal sector. There is evidence to suggest that high and increasing labour costs favour capital-intensive investments and production.

Conclusion

There are several issues worth noting regarding the linkages between trade liberalisation and employment. The analysis suggests that employment losses were rigidly confined to the export-oriented sectors of the economy. Of course, we are far from establishing the extent to which policy interventions in the different sectors could explain this pattern of job-destruction. Another important policy concern is why mining still dominates the economy. The reasoning behind this question is as follows. Mining is natural resource based, and trade in minerals does not necessarily reflect comparative advantage in the standard trade theory sense. The analysis also suggests that the use of labour-saving technologies in the form of new machinery and equipment cannot be ignored as a key determinant of the low levels of employment observed in Namibia. The logic is that few workers, working with more sophisticated machines, produce more, but the dilemma is that such workers need to be more skilled if they are to work with such machines. Namibia does have an excess supply of unskilled workers. Furthermore, we suggest that there is a need to look closely at the institutions of the labour market, as evidence from Europe and the United States strongly suggests that labour market institutions affect the way in which trade influences employment. In this regard, there is a need to understand the role of trade unions concerning wages and job-creation. Finally we suggest that the large employment losses observed in some sectors, most notably in mining, are perhaps working in accordance with an active substitution of capital for labour, and therefore it is imperative to understand why changes in industrial policy and trade liberalisation have not caused a shift towards more labour-intensive development. Of course, it is still not clear to what extent this is occurring as a reaction to increased international competition. Data and the tools at hand do not permit such an exercise.

Policy Recommendations

- Dedicated training programmes to enhance the general skills’ deficit, and in the short-term there is a need to address the skill’s shortages through imports;
- Reduce the wage gap between the skilled and the unskilled through training;
- Build capacity in trade unions and other labour market institutions so that they become geared towards job-creation;
- Fine-tune existing trade and industrial policies to favour labour-intensive production; as well as monitor the pace of liberalisation, since liberalisation implies adjustment, which could be unbalanced.

References and Further Reading


Jobs Unlimited Surveys (various years).

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