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**The Impact of Globalisation on the  
Labour Market: The Case of  
Namibia**

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## LIST OF ABBREVIATIONS

AGOA	Africa Growth and Opportunity Act
CBS	Central Bureau of Statistics
COSATU	Congress of South African Trade Unions
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
HO	Heckscher-Ohlin Theory
IO	Input-Output Model
IPPR	Institute for Public Policy Research

LaRRI	Labour Resource and Research Institute
LFS	Labour Force Surveys
MUN	Mineworkers Union of Namibia
NAPWU	Namibian Public Workers Union
NEPRU	Namibian Economic Policy Research Unit
RCA	Revealed Comparative Advantage
SACU	Southern African Customs Union
SADC	Southern African Development Community
TIPS	Trade and Industrial Policy Secretariat
WTO	World Trade Organisation

## ABSTRACT

This paper investigates 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. The paper argues that 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 and South Africa. 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. We argue that 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. Using standard trade theory we theoretically and empirically (albeit with limited success) explore the effects of trade liberalisation on employment in Namibia. The paper notes that the Namibian economy specialises in capital-intensive sectors and that formal sector-wage inequality is rising, which begs the questions. Is trade the culprit? Finally, the paper advances some policy considerations; whilst at the same time acknowledging that analysing the impact of trade (globalisation) remains a difficult but important process.

# 1. GLOBALISATION IN PERSPECTIVE

## 1.1 Introduction

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 fear has been raised within Namibia as well (see Jauch, 2000). 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 development 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 (Yusuf, 2001; Ghose, 2000). Most poor economies are only partially integrated into the global system. Naturally whilst this insulates these 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 (Feldstein, 2000). Globalisation captures the rapid increase in international trade in goods and services, as well as the movement of capital and labour within and across countries. It is important to point out at this stage that globalisation is far broader than just trade liberalisation. It encompasses international migration of labour; foreign direct investment; international trade; and short-term capital flows.<sup>1</sup> Different policy measures affect the different dimensions. However, often in most public debates people indiscriminately refer to all these phenomena, and the policies that often reinforce them, as “globalisation”.<sup>2</sup> In this paper we shall focus on one dimension of globalisation, that is, trade liberalisation and its likely impact on the labour market since globalisation has so many dimensions, which can possibly not be exhausted in a single paper.

World exports as a ratio of GDP was 11.7% in 1970, 14.5% in 1985 and 17.1% in 1990 (see Table 1).

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<sup>1</sup> For an accessible discussion of the international capital flows dimension of globalisation see, Martin Feldstein (2000); on immigration (labour mobility) see Rodrik (2001) and Bhagwati (1999).

<sup>2</sup> According to Jordaan (2001) the root cause of misunderstanding globalisation is of ignoring its complexity.

**Table 1: Globalisation measured by exports as a share of Output (per cent)**

Year	World exports of Goods and services as a % of GDP	World exports of merchandise as a % of GDP
1820	1.0	-
1850	2.1	-
1870	-	5.0
1880	9.8	-
1913	11.9	8.7
1929	-	9.0
1950	7.1	7.0
1970	11.7	11.2
1985	14.5	-
1990	17.1	13.5

Source: Slaughter and Swagel (1997) as cited in Dawkins and Kenyon (2000).

In 1913 this ratio was as high as 11.9%. Similarly, the ratio of world exports to GDP stood at 9% in 1929, increasing to 11.2% by 1970 and in 1990 this ratio was 13.5%. Therefore one can argue that the process of globalisation has a long history at least along the dimension of trade in goods and services.

## 1.2 Two waves of globalisation: are the benefits distributed equally?

Recent research distinguishes between two waves of globalisation. The first wave ran—from 1870 to 1914—and second started approximately around 1960. The two waves were separated by the reconstruction of protectionist barriers to trade as well as the imposition of capital and migration controls. Baldwin and Martin (1999) find that the two waves of globalisation are similar with respect to trade-to-GDP and capital-flows-to-GDP ratios but that is how far the similarity goes. Baldwin and Martin advance two “fundamental” differences. First, while the earlier wave of globalisation was characterised by trade in goods, the present wave is characterised by trade in knowledge and information, which has been engendered by the strong reduction in communications costs. Second, while the world was fairly homogenous at the outset of the earlier wave of globalisation—*homogenously poor and agrarian*—the world is highly unequal at the outset of the current wave of globalisation as it is sharply divided between rich and poor nations.

Be that as it may, increasing globalisation has come about due to the easing of policy barriers to trade and factor flows and from technical change (Dawkins and Kenyon, 2000, Baldwin and Martin, 1999, amongst others). Tariff rates and the coverage of commodities subject to tariff protection and foreign exchange restrictions have progressively been eased in many countries around the world, including Africa although at a relatively much slower pace (Ng and Yeats, 1999; Kayizzi-Mugerwa, 2001; and Tsikita, 2001). This development is the result of concerted multilateral efforts through the various GATT rounds and, subsequently, the WTO, on the one hand and partly a result of a shift in the philosophy underlying economic policy, which has favoured economic liberalisation. In addition the lowering of cost due to such factors as technical change in transportation and communications has bolstered

this move from the supply side. However, while few economists contest the economic returns from greater openness, they are perceived as having been unevenly distributed both between and within countries (Yusuf, 2001). Thus not everyone is benefiting from the increasing international integration of markets for goods and services, factors and technology. A particular concern raised in the literature is to what extent globalisation has affected the labour market, i.e. employment opportunities for some groups of workers. Yusuf (2001) writes that for some groups, the rising flow of trade and capital has heightened the sense of vulnerability. Blue and many white-collar workers in industrialised countries fear being displaced by cheaper labour in developing countries. For example, Leamer (1999) observes that unskilled workers in the US and Europe have been experiencing declining real wages and higher rates of unemployment over the last thirty years. He hints that this phenomenon has stimulated a debate on the likely causes that has focussed on two potential determinants of declining real wages for the unskilled. Skill biased technological change associated with the computer revolution and the economic liberalisation in the developing world “that have greatly increased the effective supply of unskilled workers with no commensurate increase in physical or human capital” have been identified as two potential drivers (Leamer, 1999). There is still disagreement about which of the two effects dominates.

Another contentious issue is the distribution of the gains from globalisation between the industrialised and developing countries. Goldin and Mensbrugghe (1992) as cited in El Toukhy (1998) showed that of the estimated annual gain of US\$195 billion 1992 dollars from partial liberalisation by 2002, US\$104 billion are estimated to accrue to developed countries and US\$91 billion to developing countries. El Toukhy (1998) puts these figures in perspective. He states that developing countries with more than “70 per cent of world population will get about 46 per cent of the income gains while developed countries with less than 30 per cent of world population will get more than 50 per cent of the of the world income gains”.

The main thrust of this paper is to extend this debate to the Namibian labour market, as there has been little research in this area and current discussions lack theoretical rigour. With the advent of globalisation not only are product markets interlinked but also labour markets of different countries. We consider the impact of trade liberalisation on the Namibian labour market by identifying key links between trade liberalisation and the labour market chiefly drawing on standard trade theory.

## **2. THEORETICAL LINK BETWEEN GLOBALISATION AND THE LABOUR MARKET**

According to the workhorse of international trade theory—the Heckscher-Ohlin-Therem—a nation will export the commodity whose production requires less intensive use of the nation’s relatively abundant and cheap factor and import the commodity whose production requires the intensive use of the nations relatively scarce and expensive factor. In short, relatively labour-rich countries exports the relatively labour-intensive commodity and imports the relatively capital intensive commodity. More formally, the Heckscher-Ohlin (H-O) trade theory postulates that for any country, increased trade increases overall welfare (measured as increased

consumption possibilities) by increasing specialisation in the production of those goods and services, which use relatively abundant factors more intensively.

As such a country will push its consumption possibilities outside its production possibilities by exporting those goods that use the relatively abundant factors intensively and importing those goods that uses the relatively scarce factors intensively, i.e. you can consume more than you produce through imports (Dawkins and Kenyon, 2000).<sup>3</sup> It follows that, in general, increased trade is a good thing and policy ought to be designed to assist in increasing, rather than reducing trade. However, there is one key caveat and it relates to how the gains are distributed. International trade increases welfare provided that part of the gains are distributed to the country's relatively scarce factors and, also, that factors which are displaced by imports can be immediately redeployed into the sectors that expand as a result of trade. Thus, in the absence of such compensation and smooth adjustment, it is not a universal truth that everyone is necessarily made better off by increased exposure to international trade. Why? The answer is provided by the Stolper-Samuelson theorem. This theorem suggest that an increase in the relative price of a commodity, for example as a result of a tariff, raises the return or earnings of the factor used intensively in the production of a commodity (Salvatore, 1995).

Let us use an example to explain the implications of the above theorem. Suppose that a country has two types of labour: skilled labour (relatively abundant) and unskilled labour (relatively scarce).<sup>4</sup> If we further suppose that the country produces two-types of goods; one, which is relatively skill-intensive (say electronics), and the other, which use unskilled labour relatively intensively (say clothing and footwear). Based on the H-O theory the country will import goods, which use unskilled labour relatively intensively and export electronics. If we invoke the Stolper-Samuelson theorem by assuming that the country reduces the tariff on imported goods; this will lower the price of imports and import competing goods in that country. Production of import competing goods will be curtailed while exports and imports will expand. As a result of the changes in the import competing industry, both skilled and unskilled labour will be released onto the labour market from the import competing sector. However, because this sector uses more unskilled labour relative to skilled labour, more of the scarce unskilled labour is released from the import competing sector than the exportables sector can absorb at the going relative wage, so this will cause wages to adjust. The relative wage of unskilled labour will fall and that of the relatively abundant factor, skilled labour, will rise. Consequently, the ratio of unskilled to skilled labour will rise in both industries. In theory, the effects in the trading partners of this country will mirror the effects in the domestic economy (Dawkins and Kenyon, 2000).<sup>5</sup>

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<sup>3</sup> The H-O theorem isolates the difference in relative factor abundance, or factor endowments, among nations as the basic cause or determinant of comparative advantage and international trade. For this reason, the H-O model is often referred to as the factor-proportions or factor endowment theory.

<sup>4</sup> This is just an example and the authors recognise that it is the exact opposite in most developing countries, like Namibia.

<sup>5</sup> Note that the driving force that leads to changes in relative factor payments is not increased trade per se, but rather increased trade that comes about because of changes in the relative prices of goods and services. In addition, it is not sufficient just to observe a simultaneous increase in trade and changes in relative wages, and then conclude that globalisation caused the change in relative wages.



As a result of trade factor prices equalise across countries, so the standard trade model predicts that some factors will see an increase in their incomes as a result of international trade and some will see a decrease as discussed above. However, in actual economies, structural adjustment in the labour market is not as smooth and immediate as the H-O theory purports. It follows that increased exposure to trade may well result in falling living standards for some workers, due to either falling factor incomes or permanent displacement, as well as result in rising inequality. Likewise, as Dawkins and Kenyon point out, there is a problem in applying the Stolper-Samuelson theorem to actual economies. Why? In real world economies there are “multitude of factors of production” thus making a clear prediction of the distributional effects of changing product prices less clear cut and even problematic.<sup>6</sup> In addition researchers often face data challenges in the real world when they attempt to empirically test these theories. Natrass (1998) captures this well when she states that data deficiencies and yet unsettled methodological disputes makes it very difficult, if not impossible, to assess the precise impact of international trade on labour markets to everybody’s satisfaction. However, researchers are not put-off by such challenges. There have been a number of attempts to evaluate empirically the impact of trade on employment (Edwards, 2001; Hayter, 1999).

### **3. GLOBALISATION AND THE NAMIBIAN LABOUR MARKET**

This section analyses the impact of globalisation (trade liberalisation) on the Namibian labour market. The section briefly discusses the trade liberalisation process in Namibia to elucidate what globalisation mean in the Namibian context.

#### **3.1 Socio-Economic context**

In 1990, Namibia emerged from a system of institutionalised inequality—apartheid. But Namibia is not poor; instead it is a grossly unequal country, with a measured gini-index of 70%. This confirms that Namibia’s average income is very unequally distributed and poverty is relatively high. According to the latest WDR (World Bank, 2002), more than half the population lives on less than US\$2 per day. Furthermore, HIV/AIDS remains a serious challenge to the economy, with an estimated 19.54% of adults living with the virus (Ostergard, 2002).

**Table 2: Trends in GDP growth (1993-2001)**

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
GDP at market prices	11372	12204	12706	13111	13665	14114	14597	15074
Annual % change		7.3	4.1	3.2	4.2	3.3	3.4	3.3
GDP per capita	7587	7894	7971	7980	8057	8065	8087	8096
Annual % change		4.1	1	0.1	1	0.1	0.3	0.1

Source: Central Bureau of Statistics, National Accounts (2001).

As shown in Table 2 growth has decelerated since 1995. In recent years growth has been meandering around 3%, much lower than the projected 5% during the First

<sup>6</sup> This point is made by Dawkins and Kenyon (2000).

National Development Plan. In fact, average annual growth between 1993 and 2000 is 3.6%.

### 3.2 Trends in the labour market

Namibia labour market has been characterised as highly unequal in terms of the wage distribution among ethnic groups and skills levels. It is widely argued that the legacy of apartheid had much contributed to the situation (e.g. Hansohm, 1998). Unemployment has been rising steadily since 1991. It rose from 31.4% in 1991 to 35% in 1997. The 1991 population census recorded a total number of about 394,341 employees in Namibia. Broad unemployment stood at 31.4%<sup>7</sup> in 1991 but increased slightly to 32.9% in 1994. According to the first Labour Force Survey of 1997, unemployment worsened further in 1997 to 34.5% with only 401,203 employed persons in that year. Preliminary figures based on the 2000 Labour Force Survey suggest that employment increased from 401,203 in 1997 to 431,858 in 2000.

Table 2 summarises key employment by sector. The government sector plays a very

Employment by sector	Agriculture & fisheries	Mining	Manufacturing	Water & electricity	Construction	Trade	Transport & communication	Finance	Government	Total
1991	188218	14371	22333	935	15115	36462	4879	7484	72541	394341
1997	153670	6592	25983	4576	19801	36803	13480	7817	81492	401203
change (%)	-0.18	-0.54	0.16	3.89	0.31	0.01	1.76	0.04	0.12	0.02
1991size (%)	48%	4%	6%	0%	4%	9%	1%	2%	18%	100%
1997size (%)	38%	2%	6%	1%	5%	9%	3%	2%	20%	100%
Change	-34548	-7779	3650	3641	4686	341	8601	333	8951	6862

important role in the economy is the second biggest employer.

**Table 2: Trends in employment in economic sectors, 1991-1997**

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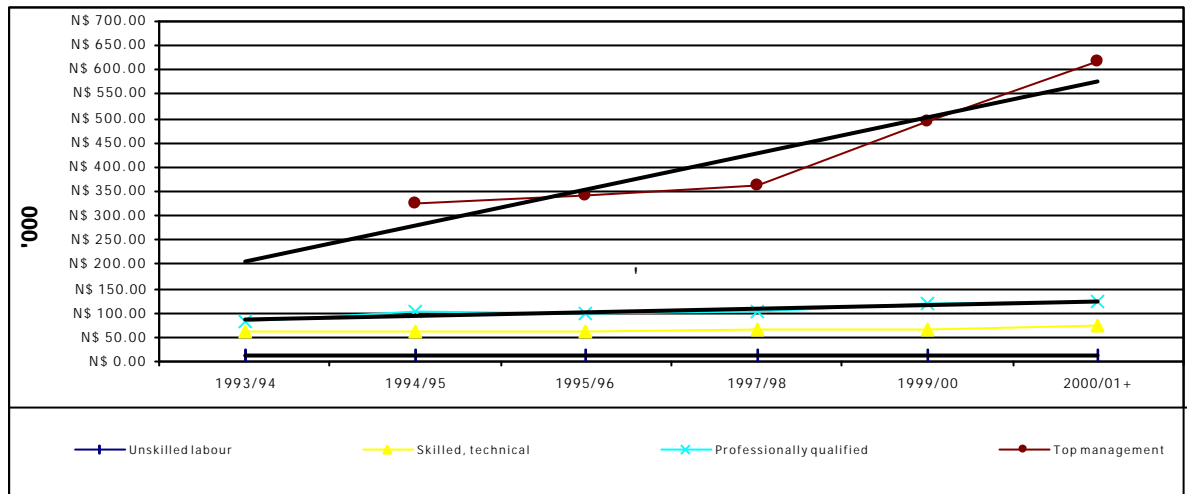
Like most African and developing country labour markets, Namibia does have a highly segmented labour market where “each defined ‘ethnic group’ has significantly differentiated access to employment and wages (Hansohm, 2001) and therefore a high wage and largely formal sector co-exists with a low wage informal rural economy. Productivity levels are low and unemployment remains high with wage inequality on the increase as borne out by private sector wage surveys.<sup>8</sup> The acute shortage of skills results in a very high skills premium. There is a steep gradient in real wages

<sup>7</sup> Taken from Tjirongo (1998).

<sup>8</sup> This assertion acknowledges that average formal sector wages are high but unevenly distributed across skills and job categories.

according to skill level, again reflecting the premium commanded by training (see Figure 1).

**Figure 1: Private sector real wage developments**



Source: Motinga and Mohammed, 2002.

A typical unskilled person earns on average 3% of the wages and salaries of top management and 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 (Motinga and Mohammed, 2002). Can trade liberalisation be responsible or is it past imbalances still at work?

### 3.3 Economic structure

The structure of the economy reflects that Namibia is richly endowed with natural resources such as diamonds, uranium, as well as one of the worlds most productive fisheries and as such mining, agriculture (mainly livestock), fisheries, and tourism form the four mainstays of the economy. These sectors account for much of GDP (except, of course government), government revenues, and foreign exchange (see Table 3). A longer-term perspective on the evolution of the sectoral contribution to GDP hints towards a decline in the relative contribution of agriculture and mining. In the early nineties the primary accounted for nearly a third of GDP (Botha, 2000) compared to roughly 18% today. The secondary sector expanded mildly mainly on the back of expanded fish processing. The largest percentage gain took place in the tertiary sector from roughly 50% in 1990 to over 60% in 2000. This trend has puzzled many as the growth in the tertiary sector has outstripped those of the primary and secondary sectors. Government sector accounts for nearly a third of the tertiary sector and 21% of GDP.

The agriculture sector's contribution to GDP has been fluctuating from 6.59% in 1993 to 7.39% in 2000. The poor performance by the sector was mainly attributed to the severe drought during the period 1989 – 1992 but signs of the natural disaster was still evident until 1993 when the sector started to improve. Increased output by the ostrich and cereal production sub sectors during 1999 and 2000 improved the agriculture sectors performance. Namibia inherited a depleted fishing industry its contribution to GDP pre independence was as low 1.3% in 1986 compared to 4.15% in 1996. The

sector improved substantially in the early 1990s. The decline was attributed to the negative oceanic conditions. The lack of oxygen in the waters led to high mortality rate among fish species. In 1996 TAC (Total Allowable Catches) were reduced to allow recovery and caused a decline in the output of the sector. With the increase of TAC and the recovery in external demand due to over fishing in the European waters, the industry performed well since 1997. As hinted earlier, the mining sector has been experiencing steady declines over the years. Despite the retrenchments that took place in the diamond industry in 1992 output has increased. The industry recovered in 1994 mainly due to expansion into offshore mining and further recovery in uranium output.

The transport and communication performed better after 1990 due to capacity expansion. The increase in exports of live animals and animal products during the period 1993 – 1996 is mainly attributable to the Lome Agreement which allowed Namibia to raise its beef exports to the EU from 10 000 to 13 000 tons. The construction sector's contribution is of the lowest of all sectors with an average contribution of 3% to GDP. The sector did well in the early 1990 when government made housing and education one of its main developmental priorities. Negative growth has been experienced form 1997 – 2000 within the construction sector due mainly to government under spending on its capital budgets and high interest rates that prevailed in the market.

Under South African rule until 1990, two very different and separate economies developed: the so-called communal areas where the majority of the people were restricted to a disproportionately small land area and practised subsistence agriculture, and a commercial economy based on export-oriented mining and agriculture controlled by a minority. Thus, a major development challenge has been to integrate the two economies and to reduce inequalities and this partially explains the large role the government sector plays in the economy.

**Table 3: The Namibian Economy, 1993 to 2000**

<b>GDP by sector of origin</b>	<b>1993</b>	<b>1996</b>	<b>2000</b>
<b>Agriculture</b>	6.50	7.67	7.39
<b>Fishing</b>	<b>4.15</b>	<b>3.68</b>	<b>4.21</b>
<b>Mining</b>	7.93	8.39	7.81
<i>Diamond</i>	5.70	5.97	5.60
<i>Other mining</i>	2.23	2.42	2.22
<b>Manufacturing</b>	12.31	9.34	10.50
<b>Electricity and water</b>	1.74	1.82	1.54
<b>Construction</b>	2.80	3.17	2.29
<b>Wholesaler and retail</b>	7.90	8.99	9.60
<b>Hotels and restaurants</b>	1.37	1.53	1.79
<b>Transport and communication</b>	6.00	6.82	6.67
<b>Financial intermediation</b>	2.31	2.90	3.23
<b>Real estate and business services</b>	9.77	9.80	8.88
<b>Community and social activities</b>	0.94	0.92	0.81
<b>Producers of government services</b>	23.84	21.94	21.84
<i>Other producers</i>	2.22	2.06	1.94

<b>GDP at market prices</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Principal exports</b>	<b>1993</b>	<b>1996</b>	<b>2000</b>
Live animals and animal products	6.54	8.37	3.79
Fish and other fishing products	0.22	0.20	0.31
Ores and minerals	40.71	38.57	43.65
Electricity	0.00	0.02	0.02
Manufactured products'	36.77	31.79	33.91
Total exports of services	15.76	21.06	18.34
<b>Total exports of goods and services</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Central Bureau of Statistics, 2001.

### 3.4 Trade liberalisation in SACU—Namibia<sup>9</sup>

Namibia commitments to the WTO are largely guided by its membership of the SACU. As such, Namibia endorses South Africa's offer to the WTO and is therefore linked to the tariff reform programme of South Africa, reflecting its status with the WTO as a developed country<sup>10</sup>. However, Namibia's WTO bindings on goods differ from those of South Africa on a number of agricultural goods. At present imports into Namibia from its SACU partner countries and from Zimbabwe enter free of customs duty (WTO, 1998).

Trade policy in SACU and therefore Namibia has evolved to a more open regime signalling a departure from an earlier protectionist trend—1925 to 1972—since the *Reynders Commission recommended export promotion* (see Table 4). Thus trade liberalisation has effectively started some 20 years ago. Table 4 summarise the evolution of trade policy in SACU. During the first phase of the liberalisation process, South Africa's primary concern was to address the slow-down in manufacturing growth, as the stages of import-substituting industrialisation were exhausted (Jenkins, 2002). The second phase was chiefly geared toward vigorous export promotion that culminated into the WTO led third liberalisation phase.

**Table 4: The evolution of trade liberalisation in South Africa-SACU**

<b>1972-83</b>	<b>The first trade liberalisation episode</b>
1972	<i>Reynders Commission recommends export promotion</i>
1972	<i>Export incentive measures are introduced</i>
1972-76	<i>Some relaxation of QR's</i>
1975-79	<i>The rand is devalued</i>
1978	<i>Further assistance to exporters introduced in line with the Van Huyssteen Committee's proposals</i>
1979-80	<i>Rand appreciate sharply</i>
<b>1983-91</b>	<b>The second trade liberalisation episode</b>
1983	<ul style="list-style-type: none"> <li>▪ <i>Kleu Study Group recommends a move away from ISI</i></li> <li>▪ <i>The dual exchange-rate system is abolished</i></li> </ul>

<sup>9</sup> This section draws on Jenkins (2002), and Cassim et al., (2002).

<sup>10</sup> This means that Namibia has made tariff concessions, cuts and bindings that exceed the commitments made by other developing countries. It is important to note that Namibia, by virtue of its membership to SACU, is bound by the common SACU regime applicable to customs valuation, rules of origin and other border measures appropriate to developed countries.

1983-85	<ul style="list-style-type: none"> <li>▪ The reduction of QR's is introduced</li> <li>▪ The external value of the rand falls significantly</li> </ul>
1985	<ul style="list-style-type: none"> <li>▪ Government white paper recommends a dual approach to industrial policy: ISI and export promotion</li> <li>▪ Debt crisis; dual exchange-rate system re-introduced</li> <li>▪ Substantial import surcharges introduced</li> </ul>
1987	BTI begins to move proactively towards trade policy reform
1989	<ul style="list-style-type: none"> <li>▪ QR removal continues</li> <li>▪ 'Structural adjustment' export incentives introduced for clothing, textiles, automobiles and automobile components</li> </ul>
1990	<ul style="list-style-type: none"> <li>▪ General Export Incentive Scheme (GEIS) is introduced</li> <li>▪ The phasing out of the import surcharges begins; not completed</li> </ul>
1991	An accelerated depreciation tax scheme is introduced
<b>1994-99 The third trade liberalisation episode (WTO)</b>	
1994	The conversion of QRs to tariff is completed
1995	<ul style="list-style-type: none"> <li>▪ Import surcharges are eliminated</li> <li>▪ Tariff reduction in line with GATT requirements begins</li> <li>▪ The financial rand is abolished</li> <li>▪ Negotiations with the European Union over trade preference commence</li> </ul>
1996	The SADC Trade Protocol is signed
1997	<ul style="list-style-type: none"> <li>▪ Further exchange control liberalisation is announced</li> <li>▪ GEIS removed and replaced with WTO-compatible export incentives</li> </ul>
1999	Agreement is finally reached with the EU

Source: Jenkins (2002), Appendix 1, p. 30.

However, notwithstanding episodes of trade liberalisation and policy reversals in the 1970s and the 80s, most researchers agree that it is really in the 1990s that a more significant and sustained process of liberalisation began (Cassim et al., 2002; Jenkins, 2002).

The main aim of trade policy in Namibia has been the diversification of the export base through various investment packages. The key government policy was the establishment in 1995 of the EPZ programme with generous tax incentives to attract investors. However, the composition of exports—largely in raw materials—has not changed significantly in the last half-decade and Namibia is still vulnerable to external shocks such as terms of trade changes, external demand and climatic variations.

### 3.5 Methodology

In order to partially appreciate the potential impact of globalisation on the Namibian labour market we distinguish between labour intensive and capital-intensive sectors and export-oriented versus import-competing sectors. Debates on how globalisation or on how trade liberalisation affects employments has been viewed differently, depending on whether the analysis is being done for developed or developing country. For Namibia it is not possible to do input-output decomposition—à la Edwards, 2001—since these tools are not available at the moment and therefore imposes serious methodological constraints.

The methodology we use follows Hayter (1999), which grouped industries into import-competing and export-oriented industries and assessed the link between higher competition from imports and job destruction. Admittedly, this method is rather

crude in terms of the classification of labour market performance by trade orientation and also understates the importance of technology but we would like to argue that this presents a first attempt to explore the linkages between trade and employment. However, caution should be taken when interpreting the results and conclusions. The main constraint for this study is reliable data, which precludes a more rigorous analysis of the relationship between trade and employment. In Namibia employment data were only collected since 1991 (population census); 1993 (Household Survey); but actual labour force surveys only began in 1997, which complicates the comparability of data across time.

### 3.6 Empirical analysis for Namibia

This paper classifies each sector in the economy according to several criteria. Furthermore, it is assumed that trade liberalisation in SACU (and therefore Namibia) coincided with the change in government in South Africa—the hitherto dominant player in the customs regime. In terms of analysing the impact of trade liberalisation on the labour market, first, export-oriented and import competing sectors have been identified according to an index of “revealed comparative advantage” between 1993 and 2000. The net trade ratio is used to calculate RCA’s (Revealed Comparative Advantage). The net trade to total trade ratio evaluates a country’s trade performance and considers the simultaneous exporting and importing within a particular product category. 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. According to this criterion, only mining and agriculture and fisheries reveal a high net trade to total trade ratio. The results are broadly similar to the TIPS (2000) SADC RCA calculations. TIPS (2000) found that most SADC economies reveal a comparative advantage for commodities based on commodities with a relatively low level of value added—raw materials.

**Table 5: Revealed Comparative Advantage in Namibia, 1993-2000: net trade to total trade ratio**

	1993	1994	1995	1996	1997	1998	1999	2000	Average	Decision
Agriculture and fisheries	0.36	0.31	0.30	0.32	-0.12	0.16	0.07	0.03	0.18	Export-oriented
Mining	0.93	0.91	0.92	0.92	0.88	0.96	0.95	0.96	0.93	Export-oriented
Manufacturing	-0.36	-0.38	-0.40	-0.49	-0.51	-0.51	-0.56	-0.52	-0.47	Import-competing
Electricity	-1.00	-0.97	-0.90	-0.98	-1.00	-0.97	-0.93	-0.98	-0.97	Import-competing

Source: Motinga and Mohammed (2002). Notes: Those sectors classified as non-trading are not included.

Second, each sector is classified by factor intensity, based on their capital-labour ratio in 1991 and 1997.

**Table 6: Sector employment, value added and factor intensities**

Sector	Employment by sector, percentage contributions (a)		Sector value added, percentage contributions (b)		Employment intensive/Capital intensive (a)/(b)			
	1991	1997	1991	1997	1991		1997	
Agr. & Fisheries	47.7	38.3	12.90	11.10	3.70	EI	3.45	EI
Mining	3.6	1.6	17.70	13.60	0.21	CI	0.12	CI
Manufacturing	5.7	6.5	12.90	14.30	0.44	CI	0.45	CI
Water and Elect.	0.2	1.1	1.70	2.00	0.14	CI	0.57	CI
Construction	3.8	4.9	2.30	2.40	1.67	EI	2.06	EI
Trade	9.2	9.2	9.10	10.40	1.02	EI	0.88	EI
Transport & Comm.	1.2	3.4	4.90	4.40	0.25	CI	0.76	CI
Finance	1.9	1.9	9.20	10.00	0.21	CI	0.19	CI
Government	18.4	20.3	29.30	31.80	0.63	CI	0.64	CI

Source: Motinga and Mohammed, 2002. Notes: EI refers to employment intensity and CI to capital intensity. If the ratio is above 0.80 a sector is classified as employment-intensive and vice versa.

Table 6 shows that Namibia is dominated by capital intensive sectors which accounts for over 30% of employment and approximately 75% of value added/GDP. 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. On the contrary the government sector and the transport and communication were the biggest net employers in absolute terms.

The main results that emerge from these comparisons are that export-oriented sectors have enjoyed a better performance in terms of gross output and productivity gains than import-competing sectors. However, relative employment losses have also been comparatively large in the highly export-oriented, natural resource-based and capital-intensive mining sector and the agriculture and fisheries sector. With trade liberalisation the reverse is expected as cheaper imports compete with domestically produced goods, *i.e. greater employment losses are expected in the import-competing sectors*. However, between 1991 and 1997 no job losses occurred in import-competing sectors of the economy, suggesting that employment losses in the Namibian economy over this period cannot be directly related to import competition and calls into question the proposition that import liberalisation may have had an adverse effect on employment.

In the light of the above, it is important to establish the link between trade liberalisation and employment losses. Two hypotheses are advanced in this connection. Hypothesis 1: could it be that firms in export-oriented sectors responding to international competition introduce labour-saving technologies and therefore contribute to employment losses—does mining fit this proposition? For example, the Chamber of Mines Annual Report for 2000 shows that total employment in mining has declined by approximately factor of four between 1981 and 1999 (see Table 7).



**Table 7: Employment changes in the mining sector, 1981 to 2000**

Year	Number of employees as at 31 December	Percentage change
1981	19240	-
1983	16595	-13.75%
1985	14869	-10.4%
1987	12905	-13.21%
1989	12776	-1.00%
1991	12265	-4.00%
1993	9854	-19.66%
1995	9775	-0.80%
1997	8214	-15.97%
1999	5427	-33.93%

Source: Motinga and Mohammed, 2002.

Hypothesis 2: To what extent—given Namibia’s specialisation in capital-intensive sectors—is trade liberalisation raising the demand for capital, whilst reducing that for labour and this way contributing to the weak employment performance?

Although it is not possible to assess this hypothesis empirically we conjecture that trade liberalisation may have raised the demand for capital at the expense of labour. This is very likely if one considers the number of capital goods favouring investment incentives in place (see Hansohm, 1998 for a summary of special incentives for manufactures). In addition other institutional barriers could also favour capital at the expense of labour. Collective bargaining became a law after independence, which coincides with increased trade union activity, which could also explain the rise in the average wage bill in the mining sector in the face of significant job shedding in this sector. In fact, Hansohm et al. 1999 suggest that the main factor determining high labour cost in Namibia is the strong influence of trade unions in the formal sector on wages. They summarised several recent wage agreements between 1995 and 1999 to support their claim, which gives an indication of the extent of trade union activity in Namibia:

- 1995 salary agreement of MUN and Rossing Uranium Ltd.: 10% across the board (75% of this for some employees);
- 1996 salary agreement of MUN and Rossing Uranium Ltd.: 9% across the board, plus 24% one-off bonus and rental allowances;
- 1997 and 1998 salary agreement of MUN and Rossing Uranium Ltd.: 11% for 1997 and 10% for 1998; this to adjusted by income group (120% for lowest, 60% for highest);
- 1998 Namwater and MUN salary agreement (1997/8: 8% across the board
- Municipality of Otjiwarongo and NAPWU: 18% for lowest, 15% for medium, and 12% for the highest income groups;
- Nampost and NAPWU 1998/99: 9.25% for lower, 8.25% for higher income groups.

Nearly 26%<sup>11</sup> of Namibia's employed population belongs to trade unions, farmers unions, or employers unions and associations (Republic of Namibia, 2001).

According to Hayter (1999) in a low-growth environment characterised by low investment rates, enterprises appear to be reacting to increased international competition by rationalising production and downsizing employment. This could be partly true for Namibia because mining which was the biggest private sector employer has become highly mechanised over time, now accounting for a mere 1.6% of total employment in the economy. Furthermore, the association that exists between output growth and formal sector employment growth shows that the post-1994 decline in the rate of economic growth is one of the most important factors underlying the rising unemployment rate (Gaomab, Steytler and Motinga, 2002).

A simple comparison of investment and employment dynamics of the different sectors partially support this hypothesis. Indeed, mining and agriculture, the two sectors with the biggest employment losses experienced real investment growth rates of 12-13% between 1993 and 2000 (and 1999). The investment surge in mining in recent years is due to Rossing Uranium increasing its capital investment from N\$47million to N\$267 (commissioning of haul trucks for new business systems) in 2000 and starting of offshore diamond mining operations and these typically are more capital intensive operations. On average those sectors that recorded positive net-employment between 1991 and 1997 (water & electricity—390%; transport and communication—176%) saw average capital formation of 23-25% between 1993 and 1997, which is almost double the growth rates of investment spending in the mining and agriculture & fisheries sectors. The increase investment in the water & electricity sectors can be attributed to the on-going rural electrification programme. Substantial investment has also been made under the transport and communication sector through the improved port infrastructure at the Walvis Bay and Luderitz harbours. Telecom Namibia also invested substantially in its efforts to connect rural areas to the national telephone grid. Investment in the fishing industry has been limited since the life span of wooden and steel boats are 40 and 50 respectively; therefore no substantial investment has been made in that regard. It is noteworthy that both mining and agriculture, the two export-oriented sectors, experienced lower rates of capital formation, and yet suffered stronger absolute and relative employment losses than import-competing sectors such as water and electricity where capital stock also rose at the same rate (2%) but recorded strong employment gains—mining employment fell by 54% between 1991 and 1997—and for agriculture and fisheries it was 18.4%. The drop in employment in the mining industry is attributed to the closure of the copper-mine and retrenchments that took place at the uranium mine during the period, but more importantly mining is a relatively mature sector whilst agriculture remains volatile due to aridity.

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<sup>11</sup> According to the LaRRI the rate of unionisation is quite high in Namibia contrary to what government statistics suggest (pers. communication with Mr. Herbert Jauch, Director of LaRRI, March 2002).

**Table 8: Percent changes in sectoral investment, 1994 to 2000**

	1994	1995	1996	1997	1998	1999	2000	Average
Agriculture and fisheries	-20	57	16	-8	38	1	-3	12
Mining	-22	30	79	-27	9	25	1	13
Manufacturing	-19	-4	0	10	42	-33	21	3
Water and Electricity	0	-6	114	-13	76	62	-73	23
Construction	89	3	7	3	49	-32	-5	16
Trade	151	85	-37	-21	4	-26	40	28
Transport and communication	61	-17	25	56	88	14	-51	25
Finance	11	7	37	-50	-3	-1	13	2
Government	-1	14	-4	7	-8	9	13	4

Source: Motinga and Mohammed, 2002.

**Table 9: Percent changes in fixed capital stock by sector, 1994-2000**

	1994	1995	1996	1997	1998	1999	2000	Average
Agriculture and fisheries	0	2	2	2	4	3	2	2
Mining	-3	-1	6	1	2	4	3	2
Manufacturing	15	11	9	9	14	4	7	10
Water and Electricity	-1	-1	2	1	4	9	-1	2
Construction	24	17	13	10	19	2	-1	12
Trade	10	21	7	3	3	-1	2	7
Transport and communication	2	1	2	6	16	14	2	6
Finance	10	9	12	4	4	4	4	7
Government	0	1	1	0	1	1	1	1

Source: Motinga and Mohammed, 2002.

#### 4. SUMMARY AND THE WAY FORWARD

This paper has attempted to assess the extent to which trade liberalisation impact on the labour market in theory and in practice. There are several issues worth noting regarding the linkages between trade liberalisation and employment. The analysis suggests that relative employment losses have been higher in export-oriented sectors than in import-competing sectors. Of course, we are far from establishing the extent to which policy interventions in the different sectors could explain this pattern of job-destruction. The analysis also suggests that the use of labour-saving technologies in the form of new machinery and equipment cannot be excluded in explaining the low employment levels in Namibia. We suggest that here is a need to look closely at the institutions of the labour market as evidence from the United States and Europe suggest that labour institutions affect the way in which trade influences employment. The role and impact of trade unions on wages and job-creation or destruction is little understood and researched in Namibia. Intuition suggests that institutional rigidities could also have something to do with the pattern and extent of job-destruction. In fact, Gaomab, Steytler and Motinga (2002) suggests that the drastic decline in the elasticity of employment to increases in output that they observe between 1988 and 1997 seems

consistent with the view that perhaps distortions to factor prices have played a role in reducing the capacity of the economy to absorb surplus labour<sup>12</sup>. Furthermore, it is suggested the phenomena of “downsizing” could explain the large employment losses observed in some sectors, perhaps in accord with active substitution of capital for labour. It is still not clear to what extent this is occurring as a reaction to increased international competition. Data and tools at hand do not permit such an analysis for Namibia, making these results and conclusions rather indicative and not conclusive.

The study further points out that the Namibian economy specialises in capital intensive sectors but once again it is not clear to what extent trade liberalisation reinforces the development path. Further research is needed to understand why changes in industrial policy and trade liberalisation have not caused a shift towards more labour-intensive development. As Hayter (1999) points out “adequate policy options depend largely on the diagnostics with regards to the causes for this continuous capital intensive development”.

Like most studies that explore the linkages between trade liberalisation and the labour market this paper suffer some shortcomings. The period of analysis is quite short, 1993-2000, which makes it difficult to make strong inferences and as trade liberalisation is a gradual process with long gestation period, a longer time period is required to confirm the trends observed more accurately. Second, it is difficult to isolate the specific impact of trade liberalisation from that of other processes, which occurred prior to the liberalisation or at the same time, such as the adoption of the Labour Act in 1992, the arrival of independence and associated political freedoms, etc., due to methodological, and data constraints.

However, in spite of these warnings, the study should provide policy makers and other researchers with indicators of the possible links between trade liberalisation processes and employment in Namibia. Some tentative policy conclusions that emerge from this paper are the need for greater and more pronounced economic diversification away from mature, capital-intensive sector. Jenkins (2002) concurs that economic diversification, especially into manufactures, is highly desirable. A diversity of income sources makes the economy less vulnerable to external shocks; and the greater the range of output the more likely that the economy is making use of all available resources (Jenkins, 2002). Of course, the domestic is too small to generate sufficient “endogenous development”, therefore it is crucial that production be aimed at a wider market. In this connection the recent investment in the textile sectors, which intends to exploit AGOA, is commendable and welcome but there is need for more. In this regard, greater attention should be paid to ‘soft’ sectors such as tourism and other less-skill intensive sectors that require basic computer literacy and language proficiency.

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<sup>12</sup> However, one has to be careful with this assertion given the weakness of the underlying data on which this suggestion is based.

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