The Impact of Globalisation on Tanzania’s Labour Market: Evidence from the Manufacturing Sector

Structure of Presentation

- Brief Introduction
- Trade Liberalisation, Investment Reforms and Privatisation, and Public Sector Reforms – What Effect on Employment?
- Who Pays More? Foreign Versus Local Firms, and Exporting Versus Non-Exporting Firms
- Who Employs More People? Foreign Versus Local Firms, and Exporting Versus Non-Exporting Firms
- Are Workers Insecure in Their Jobs?
- Some Policy Issues

Brief Introduction

- **Basis and aim of paper**
  - Presentation of key findings of study of impact of globalisation on labour market, and discussion of emerging policy issues
- **Key issues**
  - Impact of key economic reforms on employment/labour market
  - Who pays and employs more? Foreign-owned Versus Locally Owned Firms, and Exporting firms Versus Non-Exporting Firms
  - Are workers secure in their jobs?
- **The context of the study**
  - Integration of Tanzania into global economy, eg. Capital flows
  - Main impetus, SAPs
Key economic reforms – what effect on employment?

- **Trade Liberalisation**
  - Undertaken on: exchange rate controls, quantitative restrictions, tariffs and duties (Table A1 in appendix, Table 1, page 5)
  - Effect on manufacturing employment: The Textile Sector:
    - Faced stiff competition from sub-standard imports due to low tariffs
    - Led to labour redundancies (due to closure), and idle capacity, for example,
      - In early 1980s, 35 textile firms, down to 2 in 1996

Key economic reforms – what effect on employment?

- **Investment Reforms and Privatisation**
  - Undertaken: incentives to attract foreign and private investment, and to focus on what governments do best, to provide services and not to run companies
  - The process: investment code (1990), New Investment Policy (1996) led to 1997 Investment Act (established the TIC, identified investment priorities, new co. registration process etc.).
    - Response: increase in FDI inflows
  - Privatisation: hailed as a success, with two-thirds of firms earmarked privatised between 1993 and 2002

Key economic reforms – what effect on employment?

- **Investment Reforms and Privatisation**
  - Impact on employment:
    - Positive: Figure 1, page 7 – Investment projects approved by TIC and employment created
    - Negative: TTCI as an example – reduction in employment through attrition, staff reduction, restrictions on new employment and early retirement.
Key economic reforms – what effect on employment?

- **Public Sector Reforms**
  - Undertaken: to cut public expenditure, control public debt: reduce employment, provide incentives to improve efficiency, improve mgt and accountability.
  - Figure 2, page 8 – trend in real wages as % of real total govt. expenditure – steady decline from 1985 – retrenchments (eg. between 1993 and 1998, 63,000 retrenched).
  - Overall Effects: Table A2 in appendix (1990 and 2000):
    - % of people in public sector halved, % of people in govt. sector down by 1%, in parastatal sector also fell
    - % of people in private sector increased – from 3% to 5%

Who Pays More? Foreign Vs. Local Firms and Exporting Vs. Non-Exporting Firms

- **Mean Wages by Education (all)** – Fig 3, page 9

- **Mean Wages by Foreign and Local Firms (by education)** – Fig. 4, page 10
Who Pays More? Foreign Vs. Local Firms and Exporting Vs. Non-Exporting Firms

- Mean Wages by Exporting and Non-Exporting Firms (by education) – Fig. 5, page 10

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Who Pays More? Foreign Vs. Local Firms and Exporting Vs. Non-Exporting Firms

- **Implications!**
  - Globalisation is not good for less skilled workers - they get less paid, and hence are likely to remain poor
  - Globalisation is good for more skilled workers/more educated or influx of foreign firms is beneficial to more skilled workers, like other studies elsewhere – they get paid more
  - Globalisation is likely to widen income inequality among workers in Tanzania, unless efforts are made to improve the education of the less skilled/educated workforce

Who Employs More? Foreign Vs Local Firms and Exporting Vs. Non-Exporting Firms

- **Trend in Mean Employment (all)**
  - Figure 6, page 11
- **Mean Employment-Exporting Vs. Non-Exporting Firms, Fig.7, page 12**

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Who Employs More? Foreign Vs Local Firms and Exporting Vs. Non-Exporting Firms

- Mean Employment Foreign Vs. Local – Fig. 8, page 12

Wage Determinants – Results from Regression Analysis

- Table 2, page 14 – estimation results
  - **Human capital aspects**: Earnings ↑ with age, but at a decreasing rate; Earnings ↑ with experience; Educational attainment above primary level leads to better pay. Male workers get paid higher than female workers (gender)
  - **Firm size** – has positive effect on earnings
  - **Firm location** – not significantly different from Dar, and less than Dar, except for Morogoro (more)
  - **Globalisation variables**
    - Degree of foreign ownership – positive effect
    - Percentage of exports to African countries – positive effect
    - Percentage of exports to non-African countries – negative effect (!)

Wage Determinants – Results from Regression Analysis

- Implications from regression results:
  - With respect to globalisation variables:
    - Low pay is not a sufficient argument against globalisation – foreign ownership and extent to which firms export leads to an increase in earnings of workers!
  - With respect to education and globalisation:
    - Does not seem to lead to poverty reduction to uneducated and less educated, and it therefore increases income inequality – negative outcome
    - Creates incentives for investing in education – positive outcome
Are Workers Insecure in Their Jobs?

- **Degree of Unionisation**
  - The role of unions - voice of representation, sees to adherence to safety regulations & standards, drafting labour contracts & conditions of service, negotiations for packages (lay offs, early retirement), collective bargaining.
  - Degree of unionisation a proxy for extent of job security.
  - General observation  - decrease in union membership with structural adjustment in Africa, but based on scanty data.
  - For Tanzania: Table 3, page 16
    - Between 1992 and 1998 – increase in number of firms indicating non-union membership of workers
    - Decrease in firms reporting 100% union membership of workers
    - Negative outcome – increase in job insecurity.

- **Number of Lay offs**
  - Source of insecurity due to persistent fear of being the next one to go.
  - Positive relationship between lay offs and privatisation, and FDI due to new technology, or mere trimming of workforce to minimise costs.
  - Table 4, page 17 – labour activity: layoffs, resignations, workers absconding – indicative of high job insecurity, and high rate of unemployment also contributes to insecurity – Table A2 in appendix.

- **Increasing prevalence of casual workers**
  - Necessitated by increasing competition, hence need to cut costs, often directed at variable factors, labour being key.
  - Less costly severance benefits, and focus on core operations and leaner structures - reduce no. of permanent staff, increase part-timers and casuals.
  - Insecurity arises: workers know they can be dispensed with any time, hence can abscond, or work with less dedication.
  - Table 5, page 18 – employment by type –
    - mean number of full-time workers declined between 1992 and 1998
    - existence of full-time casual workers in 1998, a category that did not exist in 1992
Some Emerging Policy Issues

- How can Tanzania benefit from the presence of more foreign-owned and exporting firms?
  - Investing in educating a key resource – people – will narrow income inequality, and enable our products to compete in the global market
  - Encourage more unionisation, through worker education, and employers!
  - Foreign firms pay more, employ more – not bad at all! But need to encourage more local ownership of firms