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Considering labour in industrialisation: It is for people – not for the statistics!

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Industrialisation is regarded as key for economic growth in developing countries. Many African countries are pushing towards industrialisation, moving away from resource extractive economies and aiming at economic diversification. To this end, emerging investors' engagements have been regarded as fresh opportunities for Africa and have been welcomed in the continent. However, the reverse side of the relationship should be revisited. The emerging investors, including China, mostly operate in the textile or light machinery sectors, i.e. in labour-intensive sectors. While this creates jobs, it is also in a low-pay segment, and consequently, labour related issues have often arisen to trouble the waters. The goal of industrialisation should not be achieved by regarding the country's own workforce purely as productive factors; development is engineered by people, not simply engineered with them. Sustainability of investments is a key factor to consider.

A case in point is Namibia's experience with a multinational company, Ramatex. Even though the incident occurred several years ago, there are still lessons to be learnt from it. The Malaysian-owned multinational textile company, Ramatex, started its operation in Namibia in 2001. The Namibian government, faced with unemployment reaching a record high of 31% in 2001, was eager to attract the company.

The Namibian government provided unprecedented concessions including infrastructure support, and tax exemptions among others. In turn, Ramatex promised to create 8 000 jobs and this was expected to be a cornerstone of Namibia's industrial development. However, this bright optimism soon wore off. Besides environmental issues with long-term costs involved, such as the pollution of Windhoek's water resources, the company met with increasing resentment from locals. Strikes broke out due to the company's ill-treatment of labour and its use of migrant workers from Bangladesh instead of local workers. Finally Ramatex completely closed down the operation in Namibia in 2008 and left the state of Namibia with long-term costs.

Past mistakes

A lesson to be learnt from this incident is that development should be pursued for the sake of citizens, not in order to get statistics right. The implications reach beyond the fate of an individual enterprise and the consequences were not limited to only the company's shutdown. The government's initial and subsequent investment did not pay off. This foreign investor's sudden shutdown brought about a significant economic setback; after the shutdown of the company, thousands were left jobless. After the closure of Ramatex, the Namibian government accused labour of causing trouble and driving the investors away. Trade unions criticised the non-adherence of Ramatex to Namibia's labour regulations. There was common ground between the Namibian government and the trade unions to try and get compensation from the company; yet, this came to nothing and the Namibian government (and ultimately: Namibians) had to shoulder all the damages at their own costs.

Labour questions are important for development – but not just the costs

Labour needs to be a point in the consideration of development. Also in China, the government is now following a more inward-looking approach, highlighting the lessons from inequality underlying its remarkable economic growth through economic reforms. The increasing spark up of labour unrest in China shows that keeping the price of labour low can no longer be a viable pathway for development in China. Of course, work ethics and productivity are a topic – but that actually means investments in labour skills and training. Without the improvement of the quality of labour, many developing countries will remain suppliers of mostly un-skilled labour. In fact, decent wages and a prosperous new middle class's demands can be the economic engine for further growth. Domestic consumption will be reinvested domestically, and through this process, it will be possible to step out of the vicious cycle of poverty.

The scarcity of skilled labour has repeatedly been pointed out as one of the biggest problems on the continent. In retrospect, in the newly industrialising countries (NICs) of East Asia, labour was treated as an asset. Even though the success of the economy was due to cheap labour, there existed at the same time an endeavour on the part of governments to invest in and further develop human resources. Nowadays, the first generation NICs such as Singapore and South Korea as well as Southeast Asian NICs like Malaysia still attract investment. These countries nowadays do not provide cheap labour, but they guarantee high productivity based on high quality labour.

Many African governments highlight the significance of the inflow of investment, and try hard to provide incentives for investors. This is right. Yet, the fundamental goal of industrialisation - national development – should be considered before taking the first step. Demanding hard work is clearly in the interest of the economy. But developing skills should feature at least as high on the agenda!

In the developing world, host governments are likely to be put under double pressure. On the one hand, countries need foreign investment which will be conducive to job-creation and technology transfer, therefore, they have to provide substantial incentives to encourage investment. On the other hand, they are under pressure from local trade unions that advocate a decent work environment. Considering the nature of investors that look for cheap labour, African governments aspire to offer abundant and cheap labour. This has become one of the attractive incentives to lure capital – well, it has, to a large extent, been the Chinese way to foster investments, and create growth. However, in many cases, host governments do not consider the long-term effects of the foreign businesses, thinking only of short-term gain. Long-term effects do include social sustainability of business models. Business is unlikely to comply with standards spontaneously if there is no regulation. Government authorities are arguably the only actors able to effectively guide them and need to advocate for the public good, and sustainable development cannot happen at the expense of people. Particularly not, as the pathway to make labour cheap means an immediate race to the bottom with the giant labour reserve China. That is a race that no African country can win.