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SA HAS undergone substantial trade and more general economic reform over the past decade and a half. These reforms have had many of the predicted and desirable effects. The entire economy has become more outward-oriented, with export propensities and import penetration increasing across both primary sectors and manufacturing.

The greatest change, however, has been in manufacturing where import penetration has risen by 54% and export orientation has almost doubled.

Even more remarkable is the uniformity of this experience across all manufacturing sectors; export orientation increased in all except two of the 28 manufacturing sub-sectors, and the same is true of import penetration.

In 10 of these sub-sectors export orientation has more than doubled over the period. The increases in import penetration have been less dramatic, increasing by more than 100% in only four sectors.

These are all signs of highly successful structural adjustment. Whatever the reasons, and there can be no doubt that economic reform and the dropping of sanctions have played a key role, the South African economy has become much better integrated with the global economy and has rationalised production in ways that respond at least in part to SA's relative cost competitiveness. This rationalisation has happened not just between sectors, but also within them.

A commonly expressed fear about trade liberalisation is that it will result in job losses as low-cost imports displace domestic products in the local market.

This argument ignores the beneficial impact of trade reform on export competitiveness and the resulting job gains in the growth of activities that can compete domestically and internationally against foreign-produced goods. It also ignores the impact on jobs in downstream service industries, especially in the wholesale and retail trades that grow in response to falling consumer prices and the growing incomes that come from trade reform.

So the past decade has seen a substantial restructuring of the economy and this has resulted in increases in both exports and imports. What has been the overall impact on employment?

At first glance the overall picture is not attractive. Between 1990 and 2002, the tradable goods sectors of the South African economy shed over 700000 jobs. By 2002 the manufacturing sector had lost almost 11% of its 1994 jobs.

A closer examination, however, shows that most of the job losses were in primary products sectors — agriculture, mining and resource-based manufacturing. Only 17% of the job losses over 1994-2002 were in non-resource-based manufacturing.

What was the "contribution" of trade to this performance?

A crude decomposition of the changes occurring in the manufacturing sector over 1990-2002, based on input shares in different subsectors, shows that, as expected, increased import penetration "caused" job losses, while greater export orientation "caused" offsetting employment gains. The net effect was positive.

The overall job gains from export growth exceeded those from increased import competition.

The net effects on employment, however, were small — less than 29000 new jobs overall, or only 0,2% of the total. Also, the employment gains appear to have been larger for skilled labour than for unskilled and semiskilled labour, and the greatest increase in demand arising from SA's changing trade orientation over the past decade was for capital rather than labour.

This gives some cause for concern and raises other questions about other perverse incentives in the industrial policy environment.

By far the largest impact on employment according to this exercise, however, has been from productivity growth. This has resulted in an average decrease in the demand for labour of 3% a year in all tradable goods sectors of the economy and 2,9% in manufacturing.

This is a very narrow view of the effects of productivity growth, of course. In the longer run productivity growth is essential to sustainable growth of incomes and employment.

It is useful to put this employment accounting exercise in perspective. The major source of employment and employment growth in SA, as in most other growing economies, has been and will continue to be the service sector. SA's service sectors provided over 1,1-million new jobs between 1995 and 2002. Over the same period, manufacturing employment grew by only about 200000 jobs and in the primary sectors it was negligible.

This suggests that it is incorrect to look at the contribution of trade and employment policies simply through the lens of job creation in tradable goods sectors on their own. Sufficient increases in manufacturing competitiveness could well lead to growing overall employment in this sector and this would certainly be a sign of success.

But the real test is whether and how much trade and industrial policies contribute to overall economic growth.

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