

5. Cross-Cutting Issues

Two relevant cross-cutting issues identified in the Nathan Global Competitiveness and Regional Integration team's research questions address the labor and competitiveness challenges posed by 1) HIV/AIDS¹⁵ and 2) gender bias in international trade. Each of these is addressed below.

EFFECTS OF HIV/AIDS ON LABOR AND COMPETITIVENESS CHALLENGES

Productivity and Profitability Effects

Whiteside and Sunter (2000) depict the following organizational hierarchy for considering the social and economic impacts of HIV/AIDS. On the social side, they consider the effects on the individual, family, community, tribe, ethnic group, nation, and finally, on mankind. On the economic side they consider the effect on a unique consumer or producer, the household, units of production (firms), subsectors, sectors (clusters), the national economy, and finally, on the global economy.

The progression of economic effects of the epidemic through the national level are:

- *on individual consumers/producers*: illness, morbidity, declines in labor productivity;
- *on households*: declines in earnings, reallocation of savings from productive purposes to health care and family security;
- *on farms and firms*: declines in productivity and profitability;
- *on subsectors/clusters*: increased social responsibility by professional associations on behalf of AIDS education and advocacy;
- *on national economies*: all of the above, plus reduced economic growth (lower GDP and GDP per capita than in the absence of AIDS); possible fall-off in foreign investor interest in national economy; possible macroeconomic effects of increased development aid inflows for AIDS-related activities on local currency value and government expenditure priorities that may have negative repercussions on export competitiveness.

African businesses are coping with effects particularly at the level of firms and subsectors (clusters) (International AIDS Trust 2001a, 2001b). The immediate effect is on labor market attrition and decreases in productivity.¹⁶ These costs are borne with far greater difficulty by micro/small/medium enterprises than by large firms. HIV/AIDS affects workers in their prime, in whom general and workplace-specific education and training investments have already been made. Sick workers and workers tending sick family members or attending funerals need increased time off from work. The adverse effect on the morale of co-workers of HIV/AIDS sufferers can also negatively affect productivity. The cost of illness in terms of reduced

¹⁵ A comprehensive source of research findings can be found on the International AIDS Economics Network website, www.iaen.org.

¹⁶ This is true of agricultural operations as well as "firms" in services and industry. For a case study of the potential effect of HIV/AIDS on the livestock sector in Namibia, see www.fao.org/WAICENT/FAOINFO/SUSTDEV/WPdirect/WPan0046.htm.

productivity due to reduced energy, distraction, and workdays lost to the illness is being felt across Africa. The International AIDS Trust (2001a) and Bloom et al. (2002)¹⁷ report that:

- In Botswana, it has been estimated that 35 to 40 percent of all teachers are infected with HIV.
- In a sugar mill in South Africa, 26 percent of all tested workers were infected with HIV. Infected workers incurred, on average, 55 additional days of sick leave during the last two years of their life.
- One study in Kenya on a sugar estate found that 25 percent of the estate's work-force was infected with HIV. Another Kenyan company experienced a 40-fold increase in funeral expenses between 1992-93 and 1996-97. During the same period, 41 per cent of the employees left the company because of illness or death. Healthier workers had to work overtime – increasing direct overtime costs and possibly indirect costs, such as stress and reduced efficiency among overworked workers.
- A Tanzanian company experienced a five-fold increase in its medical care costs per employee during 1993-97 and has now instituted a cap on expenditures per employee. At the Tanzania-Zambia Railway Authority, medical costs associated with AIDS-related illnesses increased in one year to 1995 by 63 percent
- At Barclays Bank in Zambia, the death rate among employees rose from 0.4 per cent in 1987 to 2.2 percent in 1992 (the company lost an average of 36 of its 1,600 employees annually to HIV/AIDS). *Ex gratia* payments to families increased by nearly 350 per cent between 1991 and 1992. The bank also paid increased funeral costs. More than 70 per cent of the deaths occurred in those under 40.
- At a large Zimbabwean firm of 11,500 workers, which offers significant health benefits to its employees, a study estimated 3,400 HIV-positive workers in the firm, with 64 having so far died of AIDS. It estimated the cost of AIDS in 1996 to be 20 per cent of the company's profits, with half the costs due to increased health care. By the year 2005, the costs are projected to triple.
- Firms may also experience decreased profitability due to an increase in direct HIV/AIDS-related expenditures, such as medications and burial fees. Labor searches, worker training, and maintaining redundancies on the payroll in order to cover lost days or labor turnover are expensive. As the impact of HIV/AIDS grows, national health insurance costs rise, some or all of the cost of which may be borne by employers. Firms also may increase their own social responsibility activities on behalf of AIDS education and advocacy.

Broader, Indirect Effects

Firms may also need to anticipate changes in the structure and behavior of their traditional consumer markets. In South Africa, Whiteside and Sunter (2000) report that some firms have begun to anticipate the possible loss in local market sales as consumers shift expenditures away from consumables toward increased expenditure for health and family security needs. Taking a

¹⁷ Citing reports from Bollinger and Stover 1999; Bollinger, Stover and Nalo 1999; Bollinger, Stover and Riwa 1999; Bollinger et al. 1999.

long term view of HIV/AIDS prevalence rates and likely demographic consequences, one retail firm decided to re-emphasize its areas of core competency, leverage its existing capacity to cater for other consumer needs related to its core functional specialty, and diversify its market outreach geographically away from the epicenter of HIV/AIDS (to seek markets in East/Central Europe).

More indirectly, the effect of HIV/AIDS may disrupt the delivery of intermediate goods and services to market that are inputs into other firms' production processes. For instance, in Zambia the increase in mortality among employees of its electricity corporation resulted in disruptions to the electricity supply (Whiteside and Sunter 2000, p. 108). Also, as the epidemic leaves scores of orphans in its wake, it is likely that increased social disruption may disrupt over time, possibly leading to increased street crime and thereby further discouraging the region's image to potential foreign investors. High prevalence of HIV/AIDS may also be a deterrent to increased expansion of tourism service exports. Another indirect impact may be the impact of intervention (or lack thereof) in HIV/AIDS on brands and corporate reputations (Bloom et al. 2002). While this issue has received little attention in the literature to date, experiences from other "business ethics" issues (e.g., Western consumer responses to labor and environmental practices of multinational corporations) suggests that companies' records with respect to HIV/AIDS activism may have eventual repercussions (positively or negatively, depending on public perceptions of their behavior) on their bottom lines.

Implications for Donors

The implications for donors in the region with respect to labor and competitiveness challenges is that firms and cluster organizations may need assistance to help with long-range strategic planning with respect to addressing the workforce impacts of HIV/AIDS.¹⁸ Financial cost models are being developed of the potential impact of HIV/AIDS on businesses, which can be useful (Simon et al. 2000). Unfortunately, experience from a survey of over 200 firms in Nigeria suggests that firms are far more likely to take action only once someone in the company has died or left the company in the past two years because of HIV/AIDS (Rosen 2002). However, the private sector may need facilitation assistance most to brainstorm about the longer term and more holistic, indirect effects of HIV/AIDS on the structure and behavior of future labor and goods/services markets and the implications of those effects for future commercial diversification.

GENDER BIAS IN INTERNATIONAL TRADE

What Can We Learn from Experience Elsewhere?

Conventional wisdom states that trade liberalization is good for economic performance. However, how trade liberalization affects gender groups is still open to discussion. The process of trade liberalization is likely to affect women and men differently, considering that they have different roles in production. In this era of intensive global integration, there is a valid concern that trade liberalization policies do not take gender into account and may, in turn, adversely affect women. For instance, some trade policies in developed countries threaten food security in the SADC

¹⁸ In South Africa, further bibliographic information on the effect of HIV/AIDS on firms is available from The Joint Center for Political and Economic Studies. www.jointcenter.org/international/hiv-aids/index.htm

region, an issue that affects most women and their families. As supported by proponents of human development paradigms, trade policies should be a means to eliminate poverty, gender, and social inequalities.

Surveying the SADC region, the Africa Growth and Opportunity Act (AGOA) has created jobs for many women in the clothing and textiles industries in the region. Wages are very low and work is carried out under harsh conditions (Dejene and Martin 2002, 33). APRODEV (2002) analyzed the impact of the ACP-EU Partnership Agreement in Zimbabwe. The results are two-fold. First, the EU's Common Agricultural Policy (CAP) will most likely depress the price of maize, which will likely lead to a decline in the production of maize by women farmers. Second, women's employment in the floriculture business, of cut-flowers specifically, is likely to increase. This will increase household income and improve livelihoods for women farmers and their families. The CAP is likely to have similar effects on other SADC members. Some markets will be displaced, while others will prosper.

In the sections below, lessons are drawn from other African countries, parts of Asia, and Latin America to derive implications for the SADC region.

Tariff Cuts in Bangladesh and Zambia

Fontana (2003) compares the impact of trade liberalization in Bangladesh and Zambia. The two countries differ not only in terms of geography, but also export concentration and gender distribution of employment. Bangladeshi manufactures account for 92 percent of total exports and 11 percent of the female work force. Copper in Zambia accounts for 78 percent of the export market but employs only one percent of the female labor force. In both countries, the majority of the female labor force (60 percent) is employed in the agricultural sector. Using a computable general equilibrium model, Fontana analyzes the impact of different liberalization policies, such as tariff cuts, on Zambia and Bangladesh.

Both countries have low levels of average tariff protection – less than 19 percent across all commodities. However, the degree of tariff dispersion is wide, in Bangladesh in particular, ranging from 2 percent in jute, tea, and sugar to 61 percent on processed commodities such as edible oil. When all tariffs are removed, imports in the manufacturing and agricultural sectors increase by only about 4 percent in Zambia and 15 percent in Bangladesh. In addition to changes in the two sectors, the tariff cut decreases total trade (imports plus exports), leading to a depreciation of the exchange rates. As a result of the exchange rate depreciation, exports increase from both countries, particularly in mining and male labor-intensive agriculture. In Zambia, while the production of male-intensive commercial crops and maize increases, production in the female labor-intensive sector (food staples and horticulture) declines. As a result of these changes, domestic market output increases in both countries by 0.5 percent and economy-wide (market and non market) output by 0.2 percent. Taking into account the differences in gender composition in both countries, the experiment leads to a larger female labor force participation rate and wage rate in Bangladesh than in Zambia.

The gains in both countries also vary across different levels of education. Employment in the garment sector in Bangladesh goes up by 37 percent, with female employment rising the most. The increase is higher for less educated women (primary school) and less for highly skilled. An increase in the wage rate reduces the gender gap between women and men. In Zambia female market employment also rises, although by a smaller magnitude than in the case of Bangladesh. The increase in employment in agricultural sector is more visible among women with no

education, while in the mining sector women with secondary school education gain. However, the gender gap in Zambia widens.

Overall, because of differences in export concentration and the gender distribution of employment, the gender impact of tariff cuts seems to be more positive in Bangladesh than in Zambia, as Bangladeshi women gain more in terms of employment and wages. Most of all, the wage gap between men and women declines. In Zambia the gains are smaller and the wage gap increases.

Trade Liberalization and Food Security in Sierra Leone

In most Sub-Saharan African countries, women constitute the backbone of agricultural production and their work is important for food security. Most women are often small farmers and focus mainly on subsistence farming. Trade liberalization may offer new market opportunities, more easily realized by large and medium producers than by possibly less competitive, smaller agricultural producers.

For example, Genta observes that the production of Sierra Leone's staple food, rice, has suffered a great deal due to trade liberalization (Genta 2001). Over the years, domestic rice production has decreased due to imports of cheaper rice. Like in many other African countries, food production is dominated by women farmers. Therefore, the reduction in domestic agricultural markets for traditional crops may result in a loss of employment (or shift to alternative employment), threats to food insecurity, as well as loss of women's income that supports their families' livelihoods.

The availability of cheaper imported rice creates a disincentive to domestic rice producers, causing some domestic rice markets to be displaced. Some displaced producers have switched to producing other products like tobacco, or have relocated to other sectors entirely. The facility with which farm workers can shift to production of other crops or to employment in other sectors depends on a myriad of factors, including their skills, knowledge, access to land and capital, entrepreneurship, and physical mobility. Winters (1999) notes that women who lose their jobs due to trade liberalization are concentrated in informal sectors, among small farmers, and among low-skilled workers. Poor, rural women farmers suffer more than the rest, since the latter can relocate more easily into other paid work. The impact on poor women is even more severe in cases where there are no safety nets.

Another consequence of low domestic production of rice is therefore potentially a threat to food security. On the other hand, consumers obviously benefit from the increased availability of cheaper rice. Moreover, there are many international sources of rice supply, therefore making it unlikely that Sierra Leoneans will suffer from a rupture in international rice supply due to global trade wars.

Trade Liberalization and Tourism in Uganda

Trade liberalization can also affect women through its impact on the environment. In many developing countries, women, rural women especially, are responsible for management of the environment. Not only are they responsible for collecting water and fuelwood, but in general women rely on the environment for resources (Cagatay 2001). Therefore, liberalization policies that result in environmental degradation may adversely impact women, in particular in rural Sub-Saharan Africa.

In Uganda, tourism continues to grow due to trade liberalization (Genta 2001). However, ecotourism has had negative effects on the environment. Tourist hotel developers are said to have

little or no regard for the wishes and advice of local residents. The forests, previously conserved diligently, are sometimes destroyed in the process of constructing tourism facilities. The local people are left with no access to their natural resources such as land, a crucial resource for production. Disturbances to biodiversity and livelihood have also resulted in problems such as soil erosion, with ensuing negative agricultural productivity consequences for women farmers. The government unfortunately lacks the financial resources to monitor activities that lead to environmental degradation.

Trade Liberalization and Women in Latin America

Cagatay (2001) discusses a World Bank study on trade liberalization and women in Latin America. The study concludes that during the early stages of liberalization in Latin America, hourly wages earned by women declined drastically compared with those earned by men. Women's employment was concentrated in low-paid sectors such as apparel manufacture that benefited from the liberalization. The message from the study is that, although in some cases liberalization leads to an increase in women's labor force participation, their competitive advantage – given the dominance of women among the less-skilled – is in low-paying jobs with extremely poor working conditions. Liberalization therefore results in an increase in gender-based wage inequality in developing countries such as Latin America.

Gender, Liberalization and the Care Economy

The expansion of the WTO agreements to cover other agreements such as TRIPS may have additional negative effects on women. The familiar story is the controversy around the availability of affordable medicines for the treatment of patients with HIV/AIDS. Current patent rights under the TRIPS Agreement restrict governments from either producing or importing cheaper medicine (Loewenson 2001). As the number of people with HIV/AIDS increases, women are the ones left with the heaviest burden to provide care for the sick. This leads to more time away from work, leading to diminished resources for their households.

Some Lessons

Three major lessons emerge from the cases discussed, with implications for the development of RCSA's strategic plan:

- The impact of trade liberalization in different countries depends on their geographical location, economic structure and type of sector affected, and worker education levels.
- Men and women are affected differently by trade policy outcomes, taking into consideration their different roles in production.
- More gender-sensitive assessment and analysis is needed in the formulation of trade liberalization policies.