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Low Labor Standard Leads South Africans to Export Jobs

By SHARON LaFRANIERE

BABELEGI, South Africa — When Tiger Wheels opened a wheel plant six years ago in this faded industrial town, the crush of job seekers was so enormous that the chief executive, Eddie Keizan, ordered a corrugated iron roof to shield them from the midday heat.

"There were hundreds and hundreds of people outside our gate, just sitting there, in the sun, for days and days," Mr. Keizan recalled in an interview. "We had no more jobs, but they refused to believe us."

The little shelter might just be the last expansion of this South African company's operations here. It is hiring again, but not in South Africa, where one person in four is jobless. Instead, it has a new plant in Alabama, is looking to open another in China and may expand its subsidiary's factory in Poland.

South Africa's failure to keep jobs at home and to stimulate new ones is turning into one of the biggest disappointments of the post-apartheid era.

After black majority rule triumphed 10 years ago, the government bent over backward to attract businesses to an economy weakened by the export of capital and a global boycott during apartheid. It cut inflation, liberalized trade and reduced the budget deficit.

But sound economic policies have not compensated for unskilled workers, high labor costs, crime, AIDS, the specter of a collapsing Zimbabwe on the northern border, and the fact that Africa is, simply put, a bad business address.

Today, South Africa's underclass is bigger than ever. Counting those who have given up the search for work, unemployment has jumped to more than 40 percent, from 31 percent a decade ago. The gap between rich and poor remains one of the world's largest.

"If things go on like this, we could experience a new struggle, a class struggle," said Sampie Terreblanche, an economist with the University of Stellenbosch, who sees the lack of jobs as the biggest threat to the pact that has bound blacks and whites together in the new South Africa.

The challenges of growth are demonstrated aptly enough by Tiger Wheels. For 20 years the company made aluminum wheels only in South Africa. Then, in 1994, its German subsidiary opened a factory in Poland that now employs 500 people.

The Polish plant turns a profit. The South African plant, with 700 workers, either breaks even or loses money, Mr. Keizan said. The main reason, he said, is that the Polish workers — much better educated but paid the same wage as the South Africans — make fewer mistakes.

For every 60 wheels cast at the South African plant, three must be melted down and recast, 30 percent more than at the Polish plant, he said. In his view, that is because 9 out of 10 of his South African workers never finished high school, while the same proportion of the Polish workers have university degrees. One-fifth of the South African workers can neither read nor work a simple calculator, he said.

Martin Glatt, a co-chairman of Tiger Wheels, said it would be costly to train the South African workers to the level of the Polish workers. Not only are the Poles more efficient; they are also healthier. At its South African plant, Tiger Wheels loses one worker a month to AIDS.

"You can say that's only 12 a year, out of a work force of 700," Mr. Keizan said. "But it's the 30-to-45-year age group. Each one of them has accumulated years of skill and understanding of what they do. It's horrible."

That pain is widely shared. One-third of South African companies report that AIDS has lowered profits, according to a recent survey by a business coalition. Economists estimate that AIDS cuts one percentage point off the growth of South Africa's gross domestic product.

That translates into a loss of jobs that the country can ill afford.

The large number of applicants for jobs at a new marine park in Durban last month is a sign of the growing desperation of the underclass. About 10,000 people showed up to apply for 300 openings as guards, cashiers, cleaners and information officers. When the crowd surged toward the gate, 17 people were crushed against a steel fence and had to be hospitalized. About 100 others were injured.

President Thabo Mbeki, facing an election next month, has promised a \$2 billion, five-year program to employ a million people to build roads, sidewalks and pipelines. But that cannot make up for lack of growth in the private sector, where many companies are still playing it safe.

The economy's annual growth rate of 2.8 percent is less than half what the government predicted after apartheid fell.

Fayez Omar, who runs the World Bank's operations in South Africa, said those expectations were simply too high. "It was unrealistic of anybody to expect that you would stabilize the economy one year and start growing the next," he said in an interview. "The government has done the right thing. They have laid the foundation for a takeoff."

But even optimists like Mr. Omar do not predict any takeoff soon, given the lack of skills in the work force, labor restrictions and other obstacles.

Apartheid left millions of blacks with little education and no trades. Nearly 60 percent of those who are jobless have never worked, according to the National Labor and Economic Development Institute.

In other developing countries, legions of unskilled workers have kept down labor costs. But South Africa's leaders, vowing not to let their nation become the West's sweatshop, heeded the demands of politically powerful labor unions for new protections and benefits. According to a study conducted in 2000 for the government's finance department, South Africa's wages are five times higher than Indonesia's, even though its workers are only twice as productive.

In Johannesburg, at least, executives say crime is also a deterrent. In a World Bank survey in 2000, heads of major manufacturers in or near the city said crime and violence were the biggest reasons their companies did not expand.

For foreign investors, in particular, Africa's image is still another hurdle. South Africa's financial stewards, banking system and ports may be first world, but the nation itself still rests in a continent stained by corruption, war, poverty and, in neighboring Zimbabwe, political and economic collapse.

Mr. Keizan and the other members of the Tiger Wheels board say they weighed all those factors and others in deciding where to build plants. Foremost among them was the desire of the company to present itself as a global producer. That meant starting operations in the bigger markets in Europe and the United States.

Its plans for South Africa are modest: keeping 700 jobs at the Babelegi plant, an hour's drive north of Johannesburg, but cutting costs. In the past, that has not been easy.

Three years ago, when the factory was struggling financially, Mr. Keizan said, the company tried to freeze wages. After the workers staged a three-day strike, an arbitrator ruled that they were entitled to the same wage increase negotiated by an industrywide union.

Mr. Glatt, the co-chairman, later compared the South African factory's problems with the more efficient operation in Poland.

"Tell me, where should we make our next investment?" he asked at a conference on how to create jobs in South Africa. "Look, I'm sad about this, but tell me, which way is our board going to vote?"