

FOCUS

South Africa



Effects of the global financial crisis

South Africa in a balancing act between the economic crisis and the election campaign

After the lengthy growth phase of the South African economy, the country at the Cape now also finds itself afflicted by the turbulences of the global financial and economic crisis. The economic growth has weakened exports, while business and domestic demand have decreased. The interim government of President Kgalema Motlanthe does not plan any hasty interventions during the period running up to the elections in April 2009. The collapsing economies and the election campaigns have forced the parties, however, to position themselves clearly. Notably the African National Congress (ANC) has found itself facing serious competition for the first time. The newly-created party, the Congress of the People (COPE) has already submitted its first concepts. Business federations, trade unions and the media have used the pre-election campaign in order to place demands.

“The biggest challenge we face is how to ensure greater equality, improved human development and social justice in South Africa.”

*Kgalema Motlanthe,
South African President*

The current situation

After more than nine years of uninterrupted growth and development a distinctly downward trend in South Africa's economic growth has become apparent. In the third quarter of last year the South African national economy grew by only 0.2 percent.

The country's largest platinum producer, Lonmin, predicts the dissolution of 1500 jobs in its mines in the



Up: Lonmin platinum mine

Down: Lonmin workers in a platinum mine

Limpopo Province. According to the company, this is inevitable and due to the world-wide decrease in the sale of cars and luxury items as well as the drop in prices. In

May platinum reached record prices in the international markets. The governing statistics body in South Africa, Statistics South Africa (SSA) recorded a dissolution of 32 000 jobs in the mining industry sector in the third quarter. According to Jaco Kleynhans of the South African Trade Union Solidarity, the figures across all the divisions are disconcerting.

This crisis is most evident in the motor industry. According to Brand Pretorius of McCarthy, the country's largest car sales chain, "The demand for new cars dropped by 35 percent in November last year. More than 100 branches were forced to close while 1600 licensed affiliates had to cut back their sales expectations." In addition the branches had invested millions in the development of their production and sales divisions. Now however, they are faced with the problem of having surplus capacity. McCarthy was forced to freeze 300 positions until the end of the year. "It is very sad and unfortunate, but what is happening is due to the dramatic changes in new vehicle sales, which have resulted in huge losses. All other vehicle dealerships are in a similar position." Analysts expect the dismissal of 5000 employees.

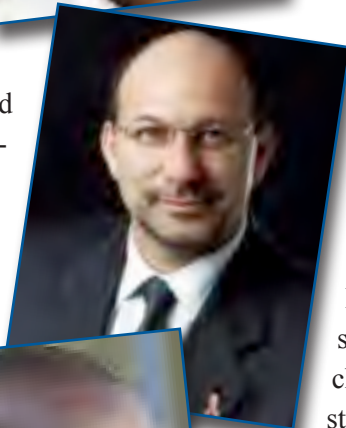
Banks are experiencing similar problems. The dramatic decrease in credit rates and homeloans has forced ABSA and First National Bank to dismiss employees as well. They hold high taxes responsible and criticize the rigid rules of the National Credit Act. Turbulences in the international finance markets and the rigid fiscal policies of the South African government have strengthened their scepticism regarding its safety measures. An increasing number of cars and properties change ownership through auctions.

The declining domestic demand has affected in particular the mining, construction and trade industries. According to Tony Twine of the management consultancy firm, Econometrix, "We are now two-and-a-half year into a downturn in the growth in spending." For the first time since 1992 it is assumed that this is due to a dramatic decrease in the sales quotient. According to Derek Engelbrecht of Ernst & Young, "After calculating the official statistics the retail industry now finds itself in a recession and has demonstrated a decline for the last two quarters." Engelbrecht predicts a similar trend for 2009.

A question of vulnerability

The current estimations regarding the middle and long-term vulnerability of the South African national economy to the global financial and economic crisis remain disputed. Some experts predict an abrupt end to the demand for natural and raw materials, which will greatly affect the South African national economy. This threatens not only the collapse of the export delivery, but also a long-term weakening of the local markets. The currently low oil prices will be balanced by the volatile South African currency (ZAR).

Other experts regard the effects of the financial crisis in a less dramatic way. According to analyst Michael Power of Investec Asset Management: “For South Africa, and other resource-rich countries, I see that demand for resources used for industrial activity, including platinum, gold, iron ore, coal and oil does not come to a grinding halt.” He says, that the dollar will become increasingly weaker in the next three years, and raw materials will become increasingly affordable for many buying states. Taxes will drop to such a low level that the world will face decades during which raw materials are needed even more so than they have been in the last decades. Power refers to Asiatic Tiger States, as well as China and India. “Asian economic growth will slow to 5-6 per cent, with China down to 7-8 per cent – but the major source of Asia’s economic growth of the past two years – goes into a spending hibernation, the Asian consumer wakes up.” In December the South Korean steel giant, Posco, bought into a manganese mine for 200 million US-Dollars, while the Indian GMR-Group acquired five percent of the South African Homeland Mining and Energy for 15 million US-Dollars, with the option of acquiring an additional 45 percent at 155 million US-Dollars.



* see end of the page

The behaviour of the government

South African President Kgalema Motlanthe, who replaced Thabo Mbeki after his resignation from office, reflected concern regarding the current situation. In a speech delivered to the National Economic and Employment Council, the President announced: “The rise in inflation and associated interest rates hikes and the relative weakness of the Rand have placed increased pressures on the South African economy and particularly on the poor.” He sees the economic policies of the time as having been placed under its first true test. According to Motlanthe: “It may be imperative to strength the current social dialogue so that it play an even, constructive role in facilitating growth and social dialogue.”

Motlanthe was made President in September, after Thabo Mbeki withdrew from office following internal conflict within the governing party the African National Congress (ANC). Motlanthe remains close to ANC-President Jacob Zuma and has not made changes to the governing of the Ministry of Finance and the South African Reserve Bank. Furthermore he has avoided programs directed towards advancement and state intervention.

Minister of Finance, Trevor Manuel and the Governor of the South African Reserve Bank, Tito Mboweni stand for a rigid domestic and financial policy. Despite high unemployment, inequality and poverty, both remain committed to domestic discipline and the fight against inflation as instruments for economic advancement. Manuel agrees that South Africa had been affected by the global financial and economic crisis, but states that “the epicentre of the crisis does not lie on our shores”. Manuel announced to the National Assembly that: “The economic and social costs of a prolonged period of hyper inflation or deflation, caused by wayward or ill-conceived monetary policies,

* Up to down: Kgalema Motlanthe (South African President), Trevor Manuel (South African Minister of Finance), Tito Mboweni (Governor of the South African Reserve Bank)

cannot and should not be tolerated.” He recommended an increase in exports and a reduction in the dependency on foreign investment.

Central bank governor Mboweni bases his estimates on an improvement in future inflation rates, warns, nonetheless, of a slow development. At the end of December he announced the first decrease in the interest rate since 2005 – by half a percentage point to 11.5 percent. In this manner South Africa joins the circle of global reserve banks attempting the revitalisation of the economy through the lowering of taxes.”All scenarios exercised that we went through show inflation is going to radically come down,” according to Mboweni, ”I am quite certain that we made the correct call in this instance.” This decision was welcomed by South Africa’s largest bank, ABSA. According to Jacques Schindelhutte, financial director of ABSA: “This releases pressure. If the Reserve Bank keeps reducing interest rates, the consumer won’t be down and out.” However, many analysts and portions of the population had hoped for more generosity from Mboweni.

The election battle

Although South Africa is under pressure, the global financial crisis does not play a significant role in the election battle of the political parties. Parliamentary and presidential elections take place in April 2009. The governing party, the African National Congress (ANC) has already submitted its election manifesto with a particular focus on five themes. The party, which has been in power since the end of apartheid, has promised the creation of secure jobs, as well as financial support for education and development, health, agricultural development and the war against crime. ANC-President Jacob Zuma, who served as Vice-President of the ANC between 1999 and 2005, and who is the prime candidate for the presidential office, promises to create secure jobs and employment. In so doing he involves himself in the most significant problem faced by the country, a problem which has merely been worsened by

the international financial and economic crisis. Officially the unemployment rate in South Africa is estimated at around 28 percent, although unofficially this figure is assumed to be around 40 percent. At the introduction of the election manifesto Zuma announced: “The creation of decent work is the the centre of all our economic policies. We will put in place a comprehensive state-led industrial policy that will direct public and private investment to support employment creation and broader economic transformation.” Zuma was applauded not only by the left wing of the ANC, but also by the members of the South African Communist Party (SACP) as well as the trade union organization, the Congress of South African Trade Unions (COSATU). Zuma plans on instigating a developing state focussed on interventions in the battle against poverty and the creation of employment opportunities.

In this manner he differs from his predecessor in the office of the ANC-President, Thabo Mbeki as well as from the newly-established party, the Congress of the People (COPE), which recently broke away from the ANC, and which promised a more economically friendly policy such as the policy favoured by President Thabo Mbeki. The two principal initiators of COPE are the former Minister of Defence Mosiuoa Lekota and Mbhazima Shilowa, the former premier of the province of Gauteng which includes the economic metropolis of Johannesburg and the seat of government in Pretoria.

COPE has not submitted an election program yet but promises an end to ANC domination, corruption and the abuse of official power. COPE criticizes the ANC of abusing public positions as a reward for loyalty to the party and demands more independence and efficiency. This COPE hopes to facilitate through the creation of employment opportunities, the war against poverty and increased investment in the areas of justice and development. By January 24 a detailed election program



Jacob Zuma,
ANC-President

will be submitted but for now the party is concerned with its initial development.

The demands of COSATU

The left wing of the ANC and the Congress of South African Trade Unions (COSATU) demands a resolution of the rigid domestic policies as well as the stringent fixation on the war against inflation. According to COSATU General-Secretary Zwelinzima Vavi, "South Africa is ripe for a new economic outlook. The important political shifts, have now created the space to advance alternative economic policies. Policies which produce high growth, but which benefit only a few, while reproducing continued high levels of infant mortality, poverty, illiteracy, casualisation, unemployment and inequality, are out." Vavi demands the diversification of the South African economy and the construction of a labour-intensive industry. According to the COSATU General-Secretary: "we have to break with the excessive dependence on export on raw materials."

ANC Chairperson, Jacob Zuma, demonstrates similar intentions, and remains, nonetheless under heavy pressure from international investors and South African businesses. Even when President Thabo Mbeki resigned from office, Zuma did call for a change of control of the Ministry of Finance or the Central Reserve Bank. Instead, together with interim president Kgalema Motlanthe, it was decided to focus on continuity. A current study conducted by the South African Institute for Race Relations indicates that no dramatic changes in economic policies can be expected after the elections. The study compares the speeches delivered by the most important ANC politicians, including Jacob Zuma, Kgalema



Zwelinzima Vavi,
COSATU General-Secretary

Motlanthe, ANC General-Secretary Gwede Mantashe and ANC Treasurer, Matthews Phose, as well as the two COPE politicians, Mosiuoa Lekota and Mbhazima Shilowa and is not able to establish any significant differences related to economic and financial questions. Contrary to fears held by business affiliates that a turn to the left by the ANC under Zuma could jeopardize the already rigid stability and result in the loss of jobs, ultimately leading the country into bankruptcy, the management consultancy firm Goldman Sachs predicts stability: "Policies resulting from South African elections and political transitions could prove to be one of the 'top surprises' of 2009, especially if Jacob Zuma, the leader of the ruling ANC and the likely winner of the election, turned out to astonish

observers in the same way that Brazilian President Luiz Inacio Lula da Silva did." Goldman Sachs calculates that Zuma will not shake the foundations of the current course of growth.

Summary

Despite domestic problems such as the energy crisis, inadequate development and education of most South Africans, the AIDS pandemic, high levels of criminality, the collapsing infrastructure and the effects of the international financial and economic crisis, the South African government has demonstrated relatively little movement. In the election campaign battle no short-term interventions or attempts at stabilizing the current political situation have been demonstrated. The manner in which the most likely candidate for the office of the president of South Africa, Jacob Zuma, will deal with the demands of South Africa's current problems is quite clear. The international financial and economic crisis does not pose any new problems for South Africa, since these are problems which have been dealt with intensively in the past. ■



Editorial

The newsletter **FOCUS SOUTH AFRICA** appears in a series according to current political and economic events and is written and published by the FES Johannesburg Office. It is published in English and German.

The FES Johannesburg Office supports the process of political, social and economic transformation in South Africa, thereby wishing to consolidate democracy and social justice in the largest country in southern Africa. The newsletter aims at providing background reports and analysis of the current political, economic and social developments.

The **FOCUS SOUTH AFRICA** can be obtained free of charge. Please do not hesitate to contact us. Our homepage provides a complete set of all issues: www.fes.org.za.

Authors of this number

Jérôme Cholet

Editor in chief

Axel Schmidt

Translation

Kendall Petersen/Jérôme Cholet

Layout & Design

Andreas Dorner

Friedrich-Ebert Stiftung

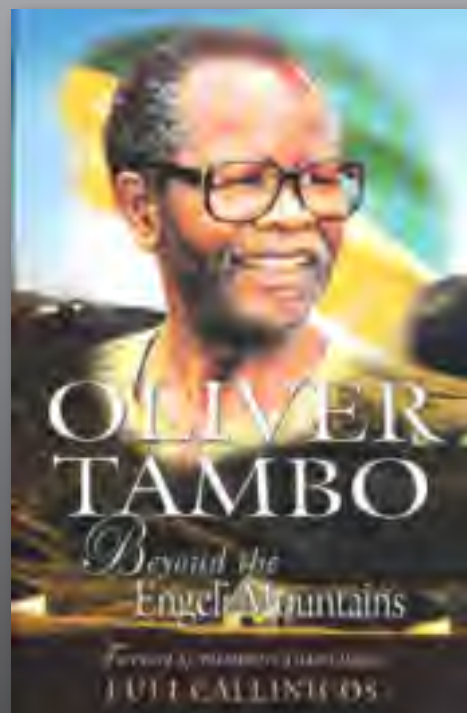
Johannesburg Office
34 Bompas Road, Dunkeld West
Johannesburg, South Africa
P.O.Box 412664, Craighall 2024
Phone: +27(0) 11-341 0270
Fax: +27(0) 11-341 0271
Email: fokus@fessa.co.za
Web: www.fes.org.za



Advertisement

Oliver Tambo
Luli Callinicos

**Beyond
the
Engeli
Mountains**



ISBN –86486-642-9
Cape Town - New Africa Books 2004, 672 p.
Supported by the
Friedrich Ebert Foundation - South Africa Office