

# Social tensions rise as South African economy slows

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The South African economy has been severely affected by the economic crisis in the European Union (EU), resulting in falling exports to Europe and a marked economic slowdown. Already-tense social relations are being exacerbated, with official unemployment at 25 percent. Taking into account those who have given up looking for work, the Congress of South African Trade Unions puts the jobless figure as high as 36 percent.

The first quarter of 2011 saw the economy grow by 4.6 percent, then slump to 1.3 percent in the second quarter and 1.4 percent in the third. Fourth quarter figures are not due until next month.

The slowdown is bound up with a 10 percent drop in manufacturing exports to the EU in 2011—the country’s largest manufacturing market, taking 27 percent of exports. The EU is also South Africa’s second largest trading partner, after China.

Exports as whole make up 20 percent of the country’s gross domestic product, and manufacturing is South Africa’s largest earner. In 2010 manufacturing accounted for 55 percent, higher than mining, which took in 41 percent. South Africa has become a significant cheap labour platform, including for cars, car parts and other manufactured products.

The fall in exports has been accompanied by an 84 percent drop in foreign direct investment between 2008 and 2010. Figures for 2011 have not been released.

The South African corporate elite has begun to turn to the rest of Africa as a means of offsetting the decline in export markets in the EU, the US and now China, as the

Chinese economy, and thus demand for minerals, begins to slow. South Africa already exports processed foods, automotive components, steel, chemicals, glass, paper and packaging to Africa.

The South African economy plays the role of conveyor belt or “stepping stone” for international finance into Africa, leading to a high level of South African capital in the continent. An International Monetary Fund (IMF) report released in April last year states that of the \$US41 billion in net private inflow into Sub-Saharan Africa in 2010, 40 percent came from South Africa.

Arguing that the global economic crisis is purely “Western” in character, South African commentators enthuse about the growth predictions for Sub-Saharan Africa. IMF estimates for this year put the figure at 5.75 percent for Africa, as compared to 4 percent for the global economy, 2 percent for the US and just 1 percent for Europe.

As the downturn in South Africa demonstrates, however, the African continent as a whole is dependent on the global economy for exports and capital. While China’s demand for raw materials and energy has boosted some countries, China in turn depends on markets in the West and has been hit by shrinking demand.

South Africa was already heavily impacted by the 2008-09 global financial crisis. The economy went into recession in the fourth quarter of 2008, and 365,000 people lost their jobs in the formal and informal economy.

As a result of high capital outflows, the global ratings agencies Fitch and Standard & Poor's both downgraded the rand, the South African currency, in November 2008 after its value fell by over a third. Markets for South Africa's mineral and manufacturing products fell sharply, producing a 15 percent decline in factory output in February 2009.

By the third quarter of 2009, the economy began to grow again but more than one million jobs had been lost in just three quarters. None of those jobs has been recovered. In fact, the National Development Plan released late last year, chaired by former Finance Minister Trevor Manuel, reported zero net job creation over the past 25 years.

In 2010, long-term unemployment, compounded by the rising cost of living, turned the annual wage rounds into a major strike wave that led to more than 20 million working days lost. This upsurge continued into 2011, when 30 million days were lost in just the first half of the year. The strikes only came to an end after unions forced workers back to work in return for minimal wage increases far below the cost of living.

In an attempt to placate workers, President Jacob Zuma promised in November 2010 to reduce official unemployment to 15 percent by 2020. The pledge was immediately undermined by Finance Minister Pravin Gordhan, who insisted there was "limited fiscal space" for the government to create jobs. "Tax revenue will be going down as it is in the rest of the world, so we have to keep a tight hand on the spending side," he said.

At the end of last year, Zuma optimistically declared: "No matter how we evaluate 2011, we can come to one conclusion. We are ending the year better off than we were back in January, and certainly far better off than we were 17 years ago."

Amid the current downturn, however, financial commentators are calling for tough austerity measures. Writing in the *Financial Mail* earlier this month, analyst Moeletsi Mbeki dismissed Zuma's claims that he was building "friendly capitalism" in South Africa.

"Sooner or later, the big stick comes out, because

now, when you are having a shrinking production and a shrinking finance to finance your consumption, then you have to decide who consumes and who doesn't," Mbeki wrote.

The social gulf between rich and poor is already immense. Amid rising unemployment, the richest 100 individuals in South Africa increased their wealth by 62 percent last year to a combined value of R153 billion (\$US19 billion). At the same time, half of the population of 50 million lives below the official poverty line.

Along with high levels of joblessness, the working class is also being hit by inflation which rose to 6.1 percent last November.

Prices for food and non-alcoholic beverages increased by 11 percent, the cost of water by 9 percent and electricity, which is provided by the state-owned company ESKOM, by 17 percent. Public transport costs increased by 10 percent and health care by 5 percent.

The fact that Zuma speaks only for the wealthiest sections of South Africa society is becoming increasingly obvious to workers, setting the stage for widespread social unrest and a political confrontation with his government.



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