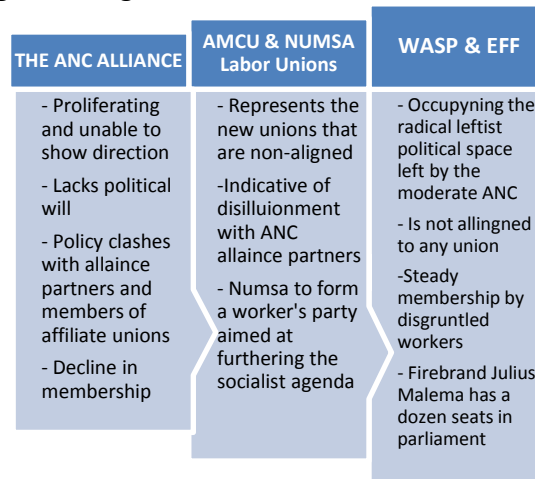


## DaMina Advisors Special Report – SOUTH AFRICA: \$3bn labor strike ends but victorious empowered radical union AMCU has fundamentally altered the economic landscape. Risks of stagflation rising as radical unions seek to target other industries.

*Co-authored with Kevin Knowles, distinguished lecturer in labor relations at Port Elizabeth College, South Africa*

South Africa's longest (five months) and costliest (\$3bn) labor strike has ended - but the fundamentally altered landscape of the country's political economy bodes ill for the beleaguered inflation prone economy. The risks of stagflation in 2014 are rising. The newly empowered radical union, the Association of Mineworkers and Construction Union (AMCU) having won a major victory over the platinum miners, will look to take on other key industries and challenge more moderate government-aligned unions. Wildcat strikes in coming weeks and months are quite likely. The twin risks of GDP contraction and rising inflation are rising. With global energy and food prices elevated the inflation pressures tugging at the South African economy are dramatically strengthening. While the vexed state of South African labor relations was escalated by the recent platinum mine strikes, the precarious leadership of the ruling African National Congress (ANC)-led tripartite alliance, over the South African Communist Party and the country's biggest trade union, the Congress of South African Trade Unions (COSATU), remains the structural cause of the current crisis. The ruling ANC-led alliance is perforated by deep and growing internal divisions over key economic policy issues. 20 years after the end of apartheid, most South African wage-earning blue-collar workers remain very unhappy about the status quo.



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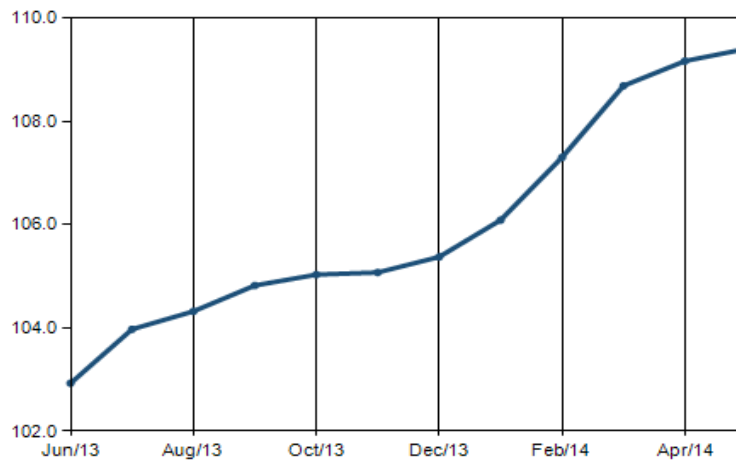
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It is against this growing chasm between labor and employers that South Africa’s union members have made no secret of their general distaste for the country’s 20-year moderate liberal macro-economic policies under presidents Mandela, Mbeki and Zuma. Moreover, on the ground, workers’ increasing frustration with COSATU’s ineptness and the ANC’s inability to deliver jobs has caused many disgruntled workers to move into the fold of radical socialist firebrand nationalist Julius Malema, who favors wholesale nationalization of key sectors of the country’s economy. With nearly 30% national unemployment rates, and over 50% adult unemployment rates in many poor black communities, wage earners are casting about for an economic liberator. AMCU aims to fit this role.

The altered political landscape does not augur well for the ruling ANC alliance who, through its historical association is finding it progressively impossible to hold the tripartite union together. The country’s economy is also held hostage to this strained bargain. It is against this backdrop that the South African labor scene is becoming the hunting ground of freebooters, ready and able to occupy the vacuum left by the ANC. Shop-floor workers have escalated battles for better working conditions and profit-sharing even as the fragile ANC-COSATU alliance remains indecisive in providing leadership. This lack of political will on the part of the ANC and its COSATU affiliated unions have inadvertently provided fertile ground for the emergence of new radical unions such the Malema-friendly Association of Mineworkers and Construction Union (AMCU). AMCU’s advent as the majority union in the mining sector saw it dramatically toppling the once Ramaphosa-led National Union of Mineworkers (NUM), a COSATU over the past year. AMCU, victorious from the platinum mine strike is now set to likely challenge other traditional labors unions in other sectors of the economy – particularly in manufacturing sector and in the public services sector. South African CPI inflation levels which are already close to 7% are likely to hit the high end of the central bank’s band by the end of the year – especially if global oil and food prices continue to rise. The risks of stagflation are increasing.

**SA CPI Inflation to Surge Upwards amid Wage Hikes**



Source: SARB

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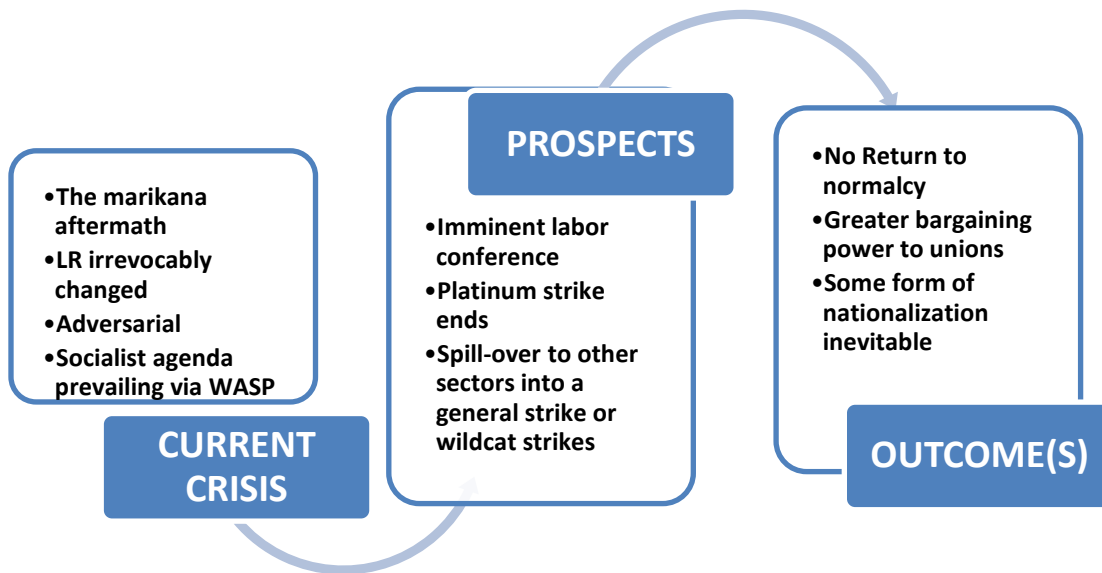
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AMCU represents a break-away of workers who became increasingly frustrated with COSATU's relative moderation and internal squabbles, and have developed a growing cynicism with the ANC. Officially AMCU's is a politically non-aligned position, but it remains on very friendly terms with Malema's radical nationalist socialist party, The Economic Freedom Fighters (EFF). EFF and AMCU claim to 'represent the down-trodden, poor, unemployed and striking workers in the platinum belt.' AMCU's real battle is not only with Anglo American, Impala Platinum and Lonmin, but also with the larger and more established pro-ANC union NUM; where tensions and rivalry remain. Following the Marikana mine shooting in 2012, workers' mistrust of government was propelled to new hitherto unachieved levels of distrust. While many in the international investment community are hanging their hopes on newly elected pro-business Deputy President Cyril Ramaphosa, Ramaphosa's directorship at Lonmin makes him virtually a persona non grata for the new radical labor unions.



What then is the way forward, and what are the dynamics that have shaped, and will shape things to come? What are the scenarios that might unfold? Famously Frans Cronje of the South African Institute of Race Relations has postulated 3 scenarios, 1) *Narrow Road*, which is the status quo. 2) The *Wide Road* Blairite-Clintonian Scenario where ANC moves firmly to the center and isolates the trade unions, hereby creating more space for policy-making with state corporations such as South African Airways and ESKOM to be privatized and the state sector to be reformed, 3) The *Rocky Road* Scenario which will see the ANC moving closer to the EFF with the SACP and COSATU dominating the alliance - taking over leadership from the moderate ANC.

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While it is currently not clear which way the ANC will choose to go, - with both paths still possible - AMCU's emergence rules out the status quo scenario completely. Either Zuma/ Ramaphosa will move to the ideological right and take on the unions ,and reform the South African microeconomic space and privatize lethargic state companies Clinton-Blair style, or the government will move leftwards and rather take on major businesses and ally with the radical labor unions and nationalize some key industries in Chinese style capitalism. Either way, over the next South Africa is set for a major policy shift soon. *Caveat emptor investors!*

**\*For a more detailed briefing on this and other Africa political economy and regulatory risk topics, please contact DaMina Advisors directly...**

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