

After Mangaung: Policy Uncertainty and Political Noise Weigh Down Growth Prospects



SUMMARY

“*Wildcat strikes should be expected across the economy for at least another year.*”

- South Africa will continue to experience heightened political noise in the run-up to the ANC's elective conference starting on 16 December 2012 in Mangaung. Key policy questions around macro-economic policy, nationalisation of mines, redistribution of land and social cohesion will be debated at the conference.
- The leadership of President Jacob Zuma may be challenged by his deputy, Kgalema Motlanthe. Indications are that Zuma will win comfortably as he has ensured the support of key factions of the 4500 conference delegates.
- Uncertainty and turbulence should be expected within the ANC after Mangaung as scores are settled following the bitter contestation of the past year.
- Proposals for “strategic nationalisation” will replace talk of “wholesale nationalisation”, with iron, coal and several other “strategic resources” and companies such as SASOL and ArcelorMittal coming under the spotlight.
- Zuma's failure to back key pro-market thinkers in his Cabinet will lead to continued scepticism about the country's fiscal and monetary management. Further negative action by ratings agencies should be factored in if the nationalisation debate is not concluded in Mangaung.
- Wildcat strikes should be expected across the economy for at least another year.

INTRODUCTION



South Africa has experienced two of its most challenging quarters in recent history.

In August the police shot and killed 34 striking mineworkers at Lonmin’s Marikana mine in the worst incident of State violence since democracy dawned 18 years ago. A wave of violent strikes, copying the Marikana action, has spread across the mining sector, threatening half a million jobs and an industry that contributes six percent to GDP. The mining industry has lost an estimated US\$1,2-billion so far due to the strikes. Workers in other sectors are following suit, demanding massive increases, as evidenced by the extremely violent transport sector strike and others in agriculture.

The ratings agency Moody’s cut SA’s credit rating by a notch to Baa1 from A3, citing worries about the country’s institutional strength, investment climate, as well as future political stability. Two weeks later Standard & Poor’s downgraded South Africa’s long-term debt and currency ratings and highlighted concerns over the ballooning illegal mine strikes in the country, among other factors. Political noise has increased ahead of the ANC’s elective conference in December, with the faction opposed to incumbent President Jacob Zuma making political capital out of these events and other scandals – notably the expenditure of R240-million of taxpayers’ money on his private compound in his home village of Nkandla in KwaZulu-Natal.

A combination of all these factors has led to massive harm to domestic and foreign investor confidence.

LEADERSHIP

Two strands have now emerged in the battle for leadership in the ANC, with one coalescing around President Zuma and another, former pro-Zuma faction, aligning itself to his deputy Kgalema Motlanthe.

With a month to go before the election, Motlanthe has given no clear indication that he is running

despite being nominated by a few powerful branches and provinces. He is running out of time. His supporters – leaders of the Gauteng and Limpopo provinces, the ANC Youth League and other provincial factions - believe there will be a late surge by the deputy president.

Our view is that Motlanthe has left it too late. On the basis of delegates’ preferences expressed at branch meetings so far, Zuma is most likely to win a second term as ANC president comfortably with about 55% - 60% of the votes cast in Mangaung. The key players in the Zuma faction and the Motlanthe camp are as follows:

ZUMA SLATE	POSITION	MOTLANTHE SLATE
Jacob Zuma	President	Kgalema Motlanthe
Cyril Ramaphosa	Deputy President	Tokyo Sexwale
Baleka Mbete	National Chairperson	Nkosazana Dlamini-Zuma
Gwede Mantashe	Secretary-general	Fikile Mbalula
Zweli Mkhize	Treasurer-general	Mathews Phosa
Malusi Gigaba	Deputy secretary-general	Thandi Modise/Thenjiwe Mthintso

ANC delegates are unlikely to mix and match their delegates, meaning that the individuals on the Zuma slate are most likely to be at the helm of the ANC in the next five years.

POST-MANGAUNG



Some intra-party uncertainty and turbulence should be expected within the ANC no matter which faction wins.

After such a bitter election campaign in which populist leaders such as youth firebrand Julius Malema have been expelled, the losers may fear reprisals and sackings from key government

positions. In the case of the Motlanthe faction, should he lose then some within the Zuma faction may be looking to replace Sports Minister Fikile Mbalula, Arts and Culture Minister Paul Mashatile and even Motlanthe himself. Although Zuma has not mooted a Cabinet reshuffle, ambitious individuals within his faction may push him to remove those who opposed his bid for a second term in office.

Should Motlanthe win, a development we do not foresee, the “two centres of power” scenario that existed after Mbeki’s ousting as party leader in 2007 repeats itself. In that case Mbeki was “recalled” as head of state by the ANC in September 2008, just eight months into Zuma’s term as party president, as he was seen to be using State resources to pursue corruption charges against Zuma.

NATIONALISATION

The noise around the nationalisation of mines has been on the rise since 2008. At the forefront of these calls has been Julius Malema, the leader of the ANC Youth League who was expelled from the party earlier this year. These calls have gained momentum, leading to investor concern.

What is the likely outcome of this?

“There shall be no wholesale nationalisation of mines in South Africa,” ANC secretary-general has reiterated to us. However, the party now says there shall be “strategic nationalisation” – a concept that ANC head of economic transformation Enoch Godongwana can still not explain to us adequately and many others struggle with.

What is clear is that “strategic nationalisation” is the next arena in the nationalisation debate to watch. In the public space there have been proposals to nationalise “strategic companies” such as SASOL, Kumba Iron Ore and ArcelorMittal. This is patently unlikely to happen despite the noise from certain quarters.

However, talk of identifying certain “strategic minerals” should point towards caution and a close eye being kept on the following:

Iron, Coal, Platinum group minerals, Vanadium, Gold, Manganese and zinc.

There have also been muted signals from some senior government leaders that the old Iron and Steel Corporation may be resurrected in order to control steel prices. We predict that the noise around “strategic nationalisation” of coal and iron – with concomitant impact on companies such as Arcelor Mittal and Kumba Iron Ore – and SASOL will increase, rather than decrease, after the Mangaung conference.

WILDCAT STRIKES



There is a slow but encouraging return to production in the recent spate of mining strikes. Several factors are key to understanding the strikes:

■ The main mining trade union, the National Union of Mineworkers, has lost credibility among workers. Attacks on its leaders have increased over the past ten months with numerous deaths reported. The NUM’s future is unpredictable, except to say that we believe that its claim of 320 000 paid-up members can be challenged. Our estimate is that NUM will settle at a membership of just over half what it has currently, with its numbers decimated in the platinum belt and in coal mining.

■ The upstart union, Amcu, is recruiting actively and returning large numbers of stop orders to employers in the platinum sector. It is a far more radical entity than the NUM and employers will have to prepare themselves for tougher, more radical positions to be taken by this new union.

■ Many of the striking mineworkers prefer to be represented by site-specific “worker leaders”, leading to confusion among managers and business leadership about who exactly to negotiate with. This trend is likely to continue, posing a challenge for business.

South Africa has already lost US\$1,2-billion of mine production due to the mine strikes. Our view is that the genie is out the bottle and that many employees, encouraged by the fantastic 22% increases (although they are actually less) at Lonmin, will continue to embark on wildcat strikes across the economy. The violent strike in the transport sector is a case in point, as is the recent violent strikes by farmworkers in the Western Cape.

South African leadership across all sectors – political, business, labour and civil society – should brace itself for tumultuous labour relations punctuated by wildcat strikes for at least a year until the situation finds a new normal. Such a new configuration will weaken the behemoth Cosatu and may see drastic changes in bargaining regimes and a rewriting of the Labour Relations Act and its amendments.

PRINCIPAL



Justice Malala is a political commentator and newspaper columnist. Malala writes regular weekly columns for The Times newspaper and the Financial Mail magazine. He also presents a weekly political talk show (The Justice Factor on the independent eNews Channel, Sundays at 9.30am and 12.30pm). He is the resident political analyst for e.tv and eNews Channel Africa.

Between 2007 and September 2011 Malala was general manager of Avusa Media (now Times Media Group)'s stable of 44 magazines and, following that, general manager of the Sowetan and Sunday World newspapers.

Malala is a regular contributor to the Guardian newspaper in London. His work has been published internationally in newspapers such as The Wall Street Journal, Financial Times, The Independent, Forbes, Institutional Investor, The Age, Prospect and The Observer. He has also contributed to BBC Online and Deutsche Welle.

He has given talks and rendered political advisory to international and local institutions such as JP Morgan, Absa Capital, Liberty, Lehman Brothers, Old Mutual, Investec, Edcon and others.

Malala is a judge on the country's most prestigious investigative journalism award, the Taco Kuiper Awards for Investigative Journalism. He was awarded the Foreign Correspondents Association Award for Courageous Journalism in 1997. His collection of satirical Financial Mail columns, *Let Them Eat Cake*, is available at all good bookshops. Malala is the founder of The Justice Malala Company, a political consultancy based in Johannesburg.

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