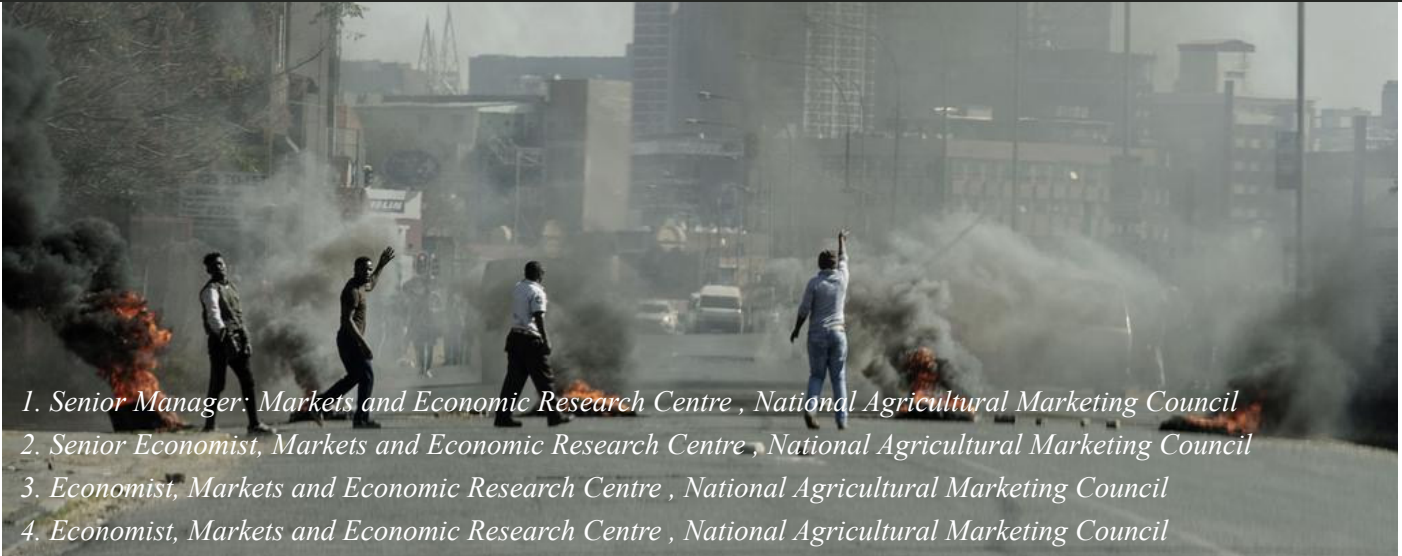


# Protest: A perfect storm for contraction of food security?

NDIADIVHA TEMPJA<sup>1</sup>, MOSES LUBINGA<sup>2</sup>, THABILE NKUNJANA<sup>3</sup> & LINDIKHAYA MYEKI<sup>4</sup>



1. Senior Manager: Markets and Economic Research Centre , National Agricultural Marketing Council
2. Senior Economist, Markets and Economic Research Centre , National Agricultural Marketing Council
3. Economist, Markets and Economic Research Centre , National Agricultural Marketing Council
4. Economist, Markets and Economic Research Centre , National Agricultural Marketing Council

## 1. Recent protests and economic prospects

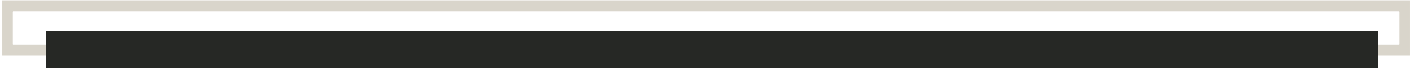
Recently several protests were observed in various provinces of South Africa, with more prominence in Gauteng and Kwa-Zulu Natal (KZN). These were accompanied by the blocking of major road infrastructure (N2 & N3) that facilitates trade between KZN and other provinces in the country. The protests have also led to loss of lives, looting of businesses and the burning or destruction of output markets and malls, particularly in urban areas.

Unfortunately, the unrest is likely to depress the economic prospects of the fragile economy already subjected to COVID-19 pandemic that has turned into an economic threat in the form of food security concerns globally, loss of jobs, economic decline, food trade restrictions and rising food inflation.

The recent June 2021 unemployment figures released by Statistics South Africa (Stats SA), indicate that the unemployment rate reached 32.6%, an increase of 0.1 percentage points in the first quarter of 2021 as compared to 32.5% recorded in the fourth quarter (October-December) of 2020. This is the highest unemployment rate recorded since the start of the labor survey in 2008.

On the other hand, the South African economy grew by 1.1% in the first quarter of 2021, translating into an annualised growth rate of 4.6%. This follows a revised 1.4% (annualised: 5.8%) rise in Gross Domestic Product (GDP) in the fourth quarter of 2020. Despite the growth and signs of economic recovery reflected in two consecutive quarters (increased at an annualized rate of 6.1% and 6.3% in the third and fourth quarter of 2020, respectively), reflecting a growth but this is still down by 2.7% (R761 billion) from the R782 billion recorded in the first quarter of 2020. The current protests are likely to have negative influence on the upcoming third quarter GDP figures because the economies of the provinces are integrated.

Consumer Price Index (CPI) released by Statistics South Africa (Stats SA) on June 23rd, 2021, shows that the annual headline CPI increased from 4.4% in April to 5.2% in May 2021, the highest increase in two years. Food and non-alcoholic beverages price inflation increased from 6.3% in April 2021 year-on-year to 6.7% in May 2021. While the economy slowly gets to its normality, the disruption in the supply and delays in delivery of fuel may not push the prices of fuels higher, but the weakening rand as a result of the riots will play a major role as the exchange rate is a key indicator for the local fuel price. Unfortunately, low-income consumers



who use paraffin for heating, lighting, and cooking are rarely in a financial position to absorb large price hikes due to the erosion of their purchasing power.

## **2. Supply disruption**

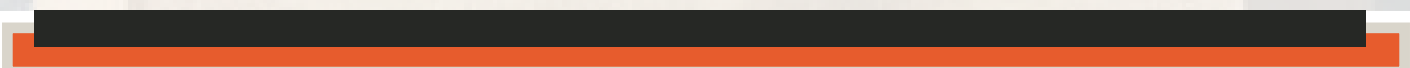
The movement of food supply in South Africa is heavily dependent on road transport with most goods coming inland from our main harbors in Durban. With the current unrest the supply/ movement of essential goods are likely to be disrupted. Furthermore, KZN produces most of the country's sugar, as well as significant amounts of cotton and milk. Some of these products such as milk must be delivered to the market at specific times due to their perishability, posing a threat to loss of income, profit and jobs if not delivered on time. Besides being an entry and exit point, KZN accounts for at least 35% of the country's fuel refinery. About 75% of the country's food is transported through roads and about 60% of food is produced and processed in North West, Mpumalanga, Orange Free State and Gauteng Province where most large warehouses and distribution centers are situated. Of these provinces only Gauteng was affected to a lesser extent as compared to KZN. However, delays on road freight along N2 and N3 led to food supply disruption and shortages in many parts of the country.

However, the current instability also goes beyond our borders, hence the impacts on our exports and imports. The citrus industry exports its produce through the Durban and Cape Town ports, and this sector has been performing well and experiencing net growth despite all the constraints posed by Covid-19. South Africa is also very reliant on certain imports such as chemicals, grains, and medicine. Key imported foods such as rice (100%), wheat (50%) entering or leaving South Africa pass through Kwa-Zulu Natal (KZN) province. The strategic location of our harbors and ports should send an alarm that a coordinated and strategic direction should be devised as a matter of urgency. Without such a plan, the implication of this is the delays in the processing of these agricultural commodities, and eventually loss of market share in export markets.

## **3. Constrained access, panic buying and road to recovery**

In general, South Africa remains food secured; however, the majority of South Africans have limited access to food and cannot afford basics. Besides rising food prices leading to erosion in purchasing power, poverty, poor infrastructure servicing the agricultural sector, high level of unemployment and limited access to land for people to produce food for their own consumption, among others.

These factors are anticipated to exacerbate the food insecurity situation, most especially in communities where unrests have occurred. It is important to note that areas like Alexandra, Soweto and others where the unrest occurred are predominantly occupied by people generally regarded as the previously disadvantaged. The food insecurity situation will be largely driven by the limited access to food items as well as constrained purchasing power, especially for households whose livelihoods were being derived from the ransacked facilities in the affected communities. Food insecurity due to limited access to basic food items will be as a result of disruptions in supply of goods and destruction of bulk storage facilities, retail stores and delivery trucks.



As of July 14, limited access to food items was already eminent in KwaZulu-Natal Province where the supply of bread was hampered and one of the largest retailing firms, “Tiger Brands” suspended its operations in the province as a result of the looting and vandalism. Other retailers including Pick ‘n Pay and Shoprite closed in many outlets in KwaZulu-Natal Province and some parts of Gauteng Province. In Soweto, it was reported that people were already bracing the cold in long queues with an aim of buying some groceries from the few supermarkets that had survived the vandalism while in Durban, bread and milk were reported to be in short supply (BUSINESSTECH, 2021).

Furthermore, retail stores will take longer to mobilize resources for reconstructing the vandalized stores, leave alone funds to restock the shelves with food items. The worst situation that might happen is some retail stores closing permanently especially in circumstances where all the capital was looted or vandalized, and confidence is lost in reinvesting in those communities. Although the aforementioned largely relates to formal business, informal businesses are facing more detrimental effects given that they operate in an informal environment with no access to credit to support their businesses. The likelihood of complete closure by informal businesses in the agricultural sector, especially those engaged in retailing in the affected areas is very high given that all their stock was either looted or vandalized since in most cases they operate in open spaces. This has far reaching implications for the many poor people who can hardly afford food items sold through the more organized retail stores. Moreover, as the strife went on unabated for days, farmers and suppliers of fresh perishable food items including fruits and vegetables could not distribute their harvested produce resulting in waste.

Furthermore, the food industry plays an important role in perpetuating hunger/ food insecurity through its influence on the accessibility and pricing of food. Rising prices have already pushed people into hunger, with the poorest

income groups spending nearly 50% of their incomes on food, and another 19% going on housing, electricity, and transport. With the current crisis, the government should keep a watchful eye on any anti-competitive behavior that may emanate from potential food scarcity. In a country where five large food retailers control 60% of the market, and outlets are concentrated in towns and cities, anti-competitive behavior in a form of fixing the prices of basic foods such as milk and bread is likely to occur.

The visible effect of the current state of affairs is panic buying in anticipation of the unknown. This was noted in some areas that were not experiencing the unrest. Higher prices of some food items, such as bread have been reported in the affected areas, thereby compounding the food insecurity problem.

Higher prices of basic food items will inevitably lead to exclusion of a majority of South Africans who are poor and unemployed if calm is not restored. Unemployment in the affected communities is also bound to increase because the vandalized facilities were the source of employment to many within those communities and without a source of income, one cannot have access to many basic items.

Farming communities in KwaZulu-Natal noted that sugarcane fields were set on fire while livestock was also stolen in many communities, even within Gauteng Province. All these work against access to food in the country. In a nutshell, one of the impacts of the unrest is constrained access to food and this will be more eminent in areas where the unrest occurred.

In conclusion, the recent protests have far reaching consequences for the economy beyond food security. The recent unrest has given rise to real concerns that the instability will affect investor confidence at a time when South Africa needs it the most. However, South Africa has complex financial systems and a constitution in which the rule of law and property rights are enshrined.



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